

Annual Report 2022







AS Eesti Raudtee 2022 annual report consists of sustainability, corporate social responsibility and good corporate governance (GCG) reports, management and accounting reports. We want to be open with stakeholders concerning various aspects of our activities.

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

General Information

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



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ESTONIAN RAILWAYS IN BRIEF

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

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



**1219 km
of railways**

(incl 225 km of
electrified tracks)



61 stations



**135 passenger
platforms**

**152 years
of history**

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



676

employees across Estonia



**Corporate
Responsibility
goldlevel award**
since 2019



STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

2022 was definitely a year to remember – the entire world was focused on foreign policy issues, and so were we. Russia's aggression against Ukraine has deeply affected various economic sectors, including the management and use of railway infrastructure.

At the same time 2022 was a very busy year for us – we updated the Company's strategy, focused extensively on popularizing the railway industry among young people and continued with large-scale construction projects that make railway traffic more comfortable and environmentally friendly. We conducted a satisfaction survey among our employees to identify the challenges facing the Company as an employer and to better support railway workers during this difficult period.

Investments increased

In 2022, we invested EUR 55.6 million in upgrading railway infrastructure, an increase of more than 60% as compared to 2021 (EUR 34.9 million). This is a very good input for the Company's 2023 investment plan which totals more than EUR 100 million. In a situation where railway companies of other countries have been forced to reduce investments due to crises, we have moved aggressively in the opposite direction and thereby helped to revive the Estonian economy. The financing of large investment projects was secured with the help of state and EU funds.

2022 was the year of construction

The objective of the Company's large construction projects is to improve the quality of railway infrastructure, traffic management and safety. Despite the fact that the war in Ukraine has pushed up the prices of construction materials, the second Keila-Pääsküla main track, new bridges over Keila and Pääsküla rivers and the railway overpass at the Top traffic junction were completed, and railway platforms were built in Laagri and Urda. We also completed the second passenger platform in Tartu, improving access for all passengers living there. We started with the renovation and straightening of the railway on Aegviidu-Tapa section to create conditions for increasing the speed of passenger trains to 160 km/h. The reconstruction of the sorting park at Tapa station and the planning of the straightening and electrification of Tartu direction required considerable attention.

Improving railway safety

One of the keywords for 2022 was good cooperation with local governments. Several new safe railway crossings were added to the Company's infrastructure including tunnels for pedestrian and cycle traffic in Keila, Laagri and Jõhvi. This work will continue and contracts are already being concluded with the city governments of Tartu and Tallinn for the construction of new tunnels. We focused on public safety and, in cooperation with the non-profit organization Operation Lifesaver Estonia (OLE), which promotes railway safety, carried out campaigns that focused on the safety of cyclists, scooter riders and motorists. In addition, our talented staff continued to conduct railway safety training in schools, kindergartens and for our partners.

Freight and passenger transport

At the beginning of autumn, we launched the Amber Train in cooperation with our partners, creating a railway corridor for freight transport between Northern and Western Europe through the Baltic countries. The service is not yet operating regularly, but all project partners are ready for it. Freight volumes on our infrastructure remained modest due to the sanctions imposed against Russia and Belarus, and this also affected the usage fees of the Estonian Railways infrastructure. In particular, transit traffic decreased in 2022. At the same time, it is encouraging that oil shale transport has recovered and passenger transport has also significantly increased compared to the COVID-19 period.

Business results and cooperation with market participants

In 2022, we worked hard to maintain stability in the railway sector. As a company, we did everything in our power to ensure balance of our expenditure and revenues, and optimal management of infrastructure. Russia's aggression against Ukraine was one of the reasons why we liquidated Moscow office of Estonian Railways in 2022. We have consistently supported the lowering of infrastructure usage fees for freight transport with the aim of helping customers cope with the difficult situations. At the end of the year, we conducted a customer satisfaction survey to identify their biggest bottlenecks and development needs.

We are working to increasingly promote rail transport among passengers and freight carriers through comfortable, high-quality and safe infrastructure.



Kaido Zimmermann
Chairman of the Management Board

KEY FINANCIAL INDICATORS IN 2022



Sales revenue
EUR 29.4
million

(2021: EUR 32.8 million)



EBITDA
EUR 23.6
million

(2021: EUR 22.4 million)



Total assets
EUR 417.4
million

(2021: EUR 374.4 million)



Equity
EUR 176.1
million

(2021: EUR 176.1 million)



Investments
EUR 55.6
million

(2021: EUR 34.9 million)



**Number of railway accidents /
casualties / fatalities**
11 / 19 / 5

(2021: 13 / 10 / 7)



**Domestic
freight volume**
EUR 2.6
million tons

(2021: 1.8 million tons)



**International
freight volume**
5.2
million tons

(2021: 10.9 million tons)



**Number of
local passengers**
7.1
million passengers

(2021: 6,0 million passengers)



KEY EVENTS IN 2022

1

January



- South-Estonian railway platforms were renovated. Nearly EUR 0.4 million was invested in the renovation of platforms.
- The Government approved the action plan guiding the development of public railway infrastructure, which provides for investments of over EUR 800 million on the infrastructure of Estonian Railways, mainly in order to electrify the existing railway and increase the speeds of passenger trains up to 160 km/h.
- Rööpameister (Rail Master) competition was held in cooperation with the road construction students of Tallinn University of Technology.

2

February

- New Working Environment Council of Estonian Railways started operations.
- Work on ensuring better access to the second platform began in Tartu station.



3

March

- Estonian Railways was visited by the head of the Representative Office of the European Commission in Estonia, who was given an overview of the activities, strategy and investment plans of Estonian Railways until 2028.
- There was a serious accident at Ropka level crossing.



4

April



- Estonian Railways sent cars specially designed for railway maintenance and various spare parts to Ukrainian Railways.
- Estonian Railways announced the procurement of design works for Haapsalu-Saunja railway section.
- The European Commission has decided to support the military mobility project EstMilMob, which is used to upgrade the infrastructure of Estonian Railways between Paluperä-Puka and Puka-Keeni sections.

5

May



- The Company's construction service assisted the Estonian Museum Railway in Lavassaare with maintenance. Together, a railway section was built, where the handrail was parked and the wooden logs that had become unusable at the switch were replaced.
- Railway safety campaign "Notice the train" was carried out in cooperation with non-profit organization OLE.
- Eesti Raudtee participated in the sciences' evening of the TTK University of Applied Sciences (TTK UAS), the aim of which was to promote real-world subjects through solving puzzling tasks.
- Estonian Railways' first solar park in Tapa with 50 kW capacity started generating electricity.

6

June

- The government decided to exclude the renovation of Turba-Risti railway line project from the Estonian recovery and resilience plan.
- In cooperation with the students of Tapa School of Music and Art, Tamsalu pedestrian underpass got a new look with railway safety messages.



7

July

- The Employees of Estonian Railways underwent crisis management and operational continuity course supervised by the Ministry of Economic Affairs and Communications.
- The second stage of the Estonian Railways physical movement series "Move on wheels, but not on car wheels" was carried out for its employees.



- A contract for the overhaul of Aegviidu-Tapa railway section was signed with OÜ GoTrack. Within the framework of the works, the superstructure of the railway will be fully reconstructed and straightened to increase the speed of the railway line.
- In cooperation with Jõhvi city government, a pedestrian underpass was built in Malmi street area. It eliminated a number of illegal crossings in the area.
- Minister of Economic Affairs and Infrastructure Riina Sikkut visited the head office of Estonian Railways and got an overview of the development of the railway.
- Railway workers gathered in Roosta to celebrate the Company's 152nd anniversary.



- Corporate information days were held for employees in Tallinn, Tartu and Narva.
- The first Amber Train took off from Muuga station, creating a railway corridor between Northern and Western Europe through the Baltic countries.
- At the request of Ukrainian Railways, Estonian Railways hosted a multinational group of experts that has joined the tariff agreement for 1520 mm gauge railways.
- Estonian Railways announces electrification tender for Aegviidu-Tapa-Tartu railway.
- New platforms of Laagri and Urda were put into use, which were built for the second main road of Keila-Pääsküla.



- Employee satisfaction and commitment survey was conducted at Estonian Railways.
- Estonian Railways updated its Management Systems Manual.
- Tuula pedestrian and cyclist underpass opened in Keila in cooperation with the local government.
- A contract was signed with GRK Eesti (formerly GRK Infra) AS for the reconstruction of Tapa station sorting park.

- The second main track between Pääsküla and Keila was opened for traffic. Several facilities were taken into use, including new Keila railway bridge, Topi railway overpass and Laagri pedestrian underpass.
- Employees were presented with the Company values awards in nine categories.
- The Company approved its Corporate Responsibility Action Plan for 2024.
- A customer satisfaction survey was carried out.
- A two-year contract was concluded with AS Alexela for the purchase of electricity from renewable sources for an expected quantity of 80 GWh.



- A new platform and ramp was opened at Tartu station, which provides a better and safer route for people in wheelchairs, as well as for cyclists and people with baby carriages.
- Activities started in cooperation with Tartu City Government to build two new pedestrian underpasses in Tartu in the coming years.
- Estonian Railways awarded scholarships to two undergraduate students of electrical power engineering and mechatronics at Tallinn University of Technology.
- Railway safety campaign "Let the train pass! They are expecting you home for Christmas!" was conducted in cooperation with OLE.



AWARDS AND RECOGNITIONS IN 2022

- Tartu City Government and Tartu residents chose the **modernisation of Tartu waiting platforms** as one of the best actions of 2022.
- Estonian Railways was granted **ISO/IEC 27001:2013** data security management system certificate.
- In October, Mayor of Tartu Urmas Klaas thanked the volunteers who gave more than 1,000 smart devices to children and families from Ukraine who had fled the war. **Estonian Railways contributed 20 working PC-s to the initiative of NGO EstHelp.**



STRATEGY OF ESTONIAN RAILWAYS FOR 2022–2028



VISION

to be the region's most advanced railway infrastructure.



MISSION

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



VALUES

cooperation, integrity, innovation and professionalism.



The sole shareholder of Estonian Railways is the Republic of Estonia. Based on the State Assets Act, the Supervisory Board of the company in which the state holds an interest must approve the company strategy. In 2022, the Supervisory Board of Estonian Railways approved the Company's revised strategy 2022-2028 that is based on the action plan for the development of public railway infrastructure for 2021–2028 approved by the Government of the Republic, the national plan "Estonia 2030+", the transport and mobility development plan 2021–2035, the company's vision, mission and values and is in line with international agreements, European Union and Estonian development documents and legislation and sectoral standards.

The strategy of Estonian Railways combines the Company's values, vision, mission, strategic goals, main activities and performance indicators in a single document. In selecting performance indicators account has been taken, among others, of the decrease in the transit of bulk goods, which is partially compensated by the development of rapid railway logistics (e.g., contrailer and container transport). The Company's strategy is based on four cornerstones, which set out the following cross-organizational strategic goals.

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

The strategy includes the business plan of Estonian Railways that was also revised in 2022. According to the business plan, the key investments are aimed at electrification, increasing speeds, modernisation of railway safety systems, digitalisation and automation of traffic arrangement processes and increasing of the rail capacity where it is short in supply.

SOCIAL IMPACT OF OUR ACTIVITIES



Almost 80% of the Estonian population lives in the impact area of the railway. The railway creates opportunities for the mobility of people and goods, employment and environmentally-friendly transport.

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

Focus topics of responsible action

Estonian Railways has voluntarily integrated social and environmental goals into its strategy, activities and relations with stakeholders. Since 2019 the Company received the Corporate Responsibility gold level award from the Responsible Entrepreneurship Forum for developing responsible enterprise. In November 2022, the Company's new action plan which will guide the developments in the sector until 2024 was approved. In the cooperation of the Company's structural units, 54 different activities from various fields were agreed upon, which concern, for example, safety, cyber security, employee well-being, risks, energy, interest groups, and the environment.

Priority topics of Estonian Railways' social responsibility:

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



Relation to UN Sustainable Development Goals

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



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





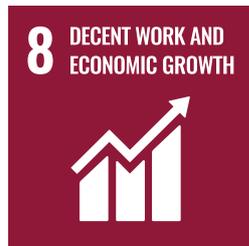
Keywords relevant to us:

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



Keywords relevant to us:

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



Keywords relevant to us:

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



Keywords relevant to us:

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



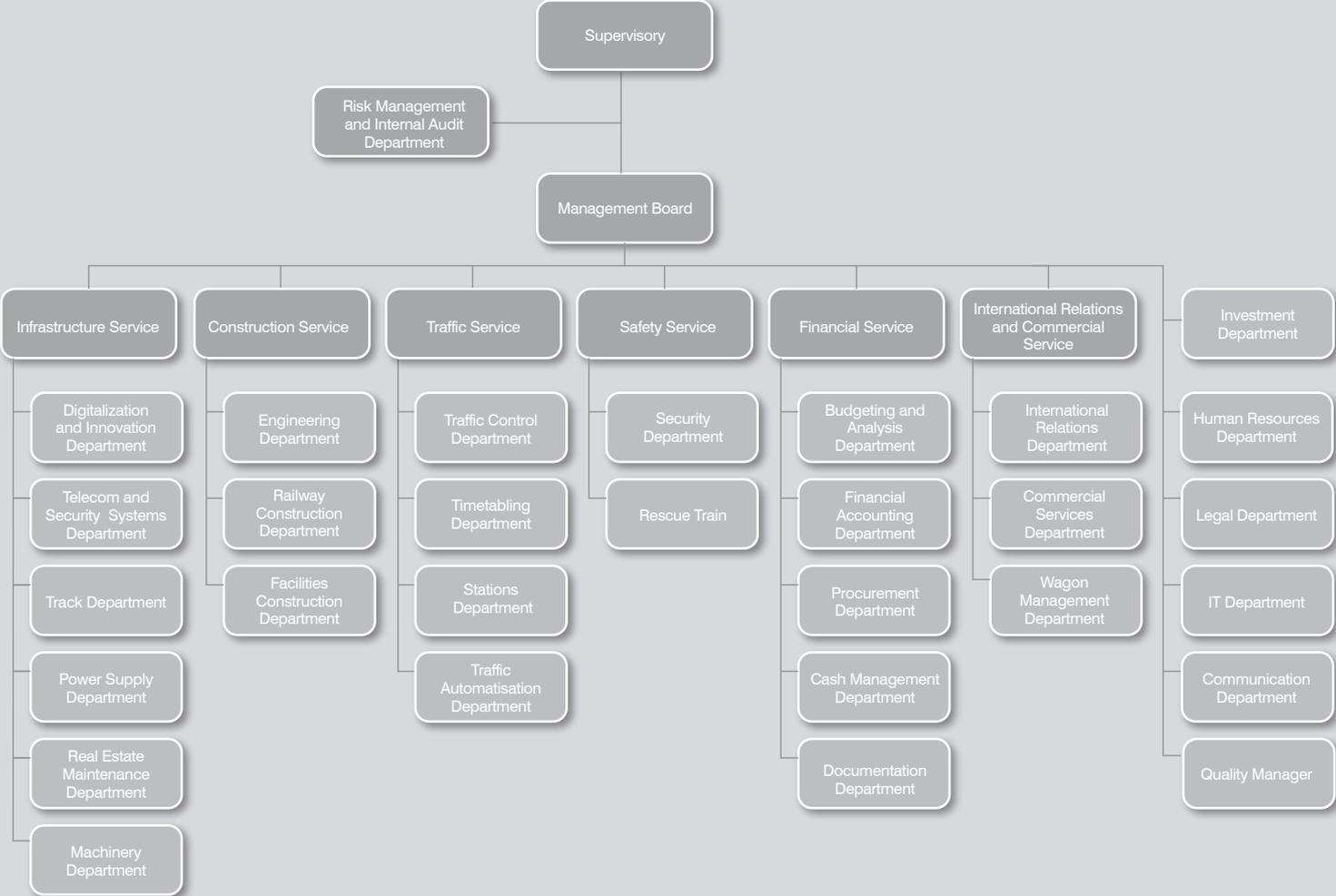
Keywords relevant to us:

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

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

MANAGEMENT

Organisational chart from 1 January 2023



Corporate Governance Report

General meeting

The Regular General Meeting presided by the Minister of Economic Affairs and Infrastructure approved the annual report for 2021 on 22 April 2022.

Supervisory Board

In 2022, the members of the Supervisory Board were Sven Pertens (Chairman), Carri Ginter, Kaie Karniol (until 7 March 2022), Kaur Kajak (from 7 March 2022), Indrek Laineveer and Rene Varek.

The Supervisory Board of AS Eesti Raudtee 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 or exceed the limit set to the Management Board by the resolution of the Supervisory Board. 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 2022, the Supervisory Board held eight meetings and adopted 16 resolutions without calling a meeting. One member of the Supervisory Board did not participate in one Supervisory Board meeting. One member of the Supervisory Board did not participate in voting by letter in voting on two items on the agenda and had withdrawn himself from the discussion of two items. In case of possible conflict of interests the member of the Supervisory Board withdraws from the discussion of the item and does not participate in the voting process. He is neither sent related materials nor the Supervisory Board meeting's protocol.

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.



Sven Pertens

Audit Committee and Safety Committee

The task of the Audit Committee is to participate as an advisory body to the Supervisory Board in issues related to performing supervision, including monitoring and analysing the processing of financial information, the effectiveness of risk management and internal controls, the process of preparing and auditing the financial statements, the independence of the auditor and the compliance of the activities with regulatory requirements.

In 2022, the members of the Audit Committee were Kaie Karniol (until 22 March 2022), Kaur Kajak (from 22 March 2022), Jaak Annus and Roman Laidinen. Until 22 March 2022, the Chairman of the Audit Committee was Kaie Karniol and from 22 March 2022, the Chairman of the Audit Committee is 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. In 2022, the members of the Safety Committee were Tamo Vahemets (Chairman), Dago Antov, Sirle Loigo, Tauno Suurkivi and Indrek Laineveer.



Kaido Zimmermann



Andrus Kimber



Arvo Smiltiņš

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 2022, the Management Board held 57 meetings.

The Chairman of the Management Board alone or two of the Management Board members jointly may represent the public limited company in all legal proceedings. The Chairman of the Management Board alone and two of the Management Board members jointly have the right to sub-authorize.

AS Eesti Raudtee is managed by Kaido Zimmermann who is the Chairman of the Management Board and CEO of AS Eesti Raudtee and also a member of the Supervisory Board of OÜ Rail Baltic Estonia. Other members of the Management Board are Andrus Kimber, Deputy Chairman and Chief Financial Officer, and Arvo Smiltiņš, member of the Management Board and Technical Director who is also a member of the profession committee of the Foundation Raudteekutsed, which awards the professions of railway engineers, and the chairman of the Evaluation Committee.

The remuneration of the members of the Management Board and termination benefits are laid down in their contracts concluded with the members of the Management Board. 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. In 2022, pursuant to the resolution of the Supervisory Board, the Chairman of the Management Board received additional remuneration in the amount of 1.7 times the average monthly remuneration, Deputy Chairman of the Management Board Andrus Kimber received additional remuneration in the amount of twice the average monthly remuneration and Management Board member Arvo Smiltiņš received additional remuneration in the amount of 1.35 times the average monthly remuneration.

Disclosure of Information

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

Value-based organisational culture

As a state-owned company, Estonian Railways has a greater obligation to transparency. We consciously pay attention to promoting business ethics and organisational culture.

The management culture of AS Eesti Raudtee is based on five golden rules:

- the Company has an approved code of values and ethics;
- strategic objectives are formulated, relevant, up-to-date and internally informed;
- strategic management is transparent and is used to implement long-term objectives involving all structural units;
- the Company's staff shall assume responsibility for the performance of their duties;
- the Company has a functioning reporting system and internal communication.



We encourage employees, by recognising and motivating them, to act according to common values. Each year, we award value awards in nine categories, honoring employees for advancing the field or for outstanding performance. We feel that value-based management is important at Estonian Railways and that the employees themselves value it.

We also pay close attention to the prevention of corruption and fraud. Our value-based expectations extend not only to employees, but also to the company's partners. In 2022, there were no cases of corporate corruption or other significant non-compliance with the law.

Risk Management

Risk management is an important management tool for the Company because it provides it with assurance that its strategic and operational objectives are being met in a controlled manner and that potential risks are being properly covered by effective mitigation measures. The management of the Company's risks and controls is aimed at prevention – for this, the manager of a particular risk is obliged to implement the best measures to mitigate the factors that provoke the risk. The principles of risk management are formulated in a document that describes the risk management policy, the risk management process, as well as the roles and responsibilities of the parties.

The Management Board is responsible for risk management at Estonian Railways. The Supervisory Board, audit committee and the Risk Management and Internal Audit Department of Estonian Railways are responsible for monitoring the risk management activities and the process. In the internal control system and risk management, staff have been appointed who are responsible for the effective management of risks.

The risk and control assessment process includes workshops with employees to review the factors affecting and triggering the risk and to analyse the suitability and effectiveness of the mitigation measures implemented. The risk management solution developed by the Company is used to manage risks, and on this basis, comprehensive risk management reporting has been created. Through these activities, the Company monitors whether and how effectively the risk mitigation measures are working. Major improvement activities will be linked to the detailed objectives of the period.

It is also important to note that the risk management principles established in the Company apply to all parties and must also be applied by external parties who have entered into a contractual relationship with AS Eesti Raudtee.

A total of 104 risks were identified and managed at Estonian Railways in 2022.



Risks and risk categories

Strategic risks	Operational risks	Compliance risks	Financial risks
Political environment Decrease in freight volumes Inadequate infrastructure financing Investment capacity	Safety Business continuity Processes Personnel Technology and IT Security and environment Organisation of assets and inventories Procurement and contracts Fraud, theft and vandalism Change management	Regulations Damage claims Capacity distribution Compliance with sanctions	Liquidity risk Credit risk Interest rate risk Currency risk Market price risk

Safety Management

According to the safety principles of Eesti Raudtee, we do everything in our power to prevent accidental death or a serious injury on the railway.

Safety actions on our railway infrastructure which is part of the safety assurance system:

- we identify the hazards, their root causes, regularly assess the risks and plan improvement measures;
- we comply with international and national legislation and internal railway safety, occupational safety, occupational health and environmental requirements;
- we establish the requirements for the maintenance and provision of railway infrastructure and monitor compliance with them;
- we ensure our customers maximum railway infrastructure capacity through high-quality traffic management and minimizing infrastructure failures;
- we continuously develop the knowledge and skills of our employees and those of our contractors;
- we involve employees, employee representatives and cooperation partners in the identification, analysis and further control activities of occupational health and safety hazards;
- we organize safety training for the employees of our contractual partners, we want to meet the operational requirements and have the necessary certificates.

Quality Management

The main objective of quality and process management is to optimize the work of the Company in order to improve the quality of service. The most important activities of quality management in 2022 were updating of the manual of integrated management systems and bringing this information to employees. In 2022, the implementation of the asset management system was continued in accordance with the requirements of the international standard ISO 55001. Regular audits of ISO 9001 and ISO 14001 quality management systems were carried out.

In change management, we set the goal in 2022 that the changes taking place at the Company must be managed systematically and uniformly across the whole Company. The pilot project involved relocating the information management information system of the Company's construction service to a web-based cooperation platform, which was successfully implemented.

COMMUNICATION WITH STAKEHOLDERS



Eesti Raudtee

2 tuh likes • 2,3 tuh jälgijat



In 2022, it was important to share information about the effects of the war in Ukraine on the railway sector. Due to the constant increase in sanctions, there was a greater-than-usual interest in freight groups and transport operators. It was also important to share relevant information on the large-scale rail construction works that affected train schedules.

Public interest in the activities of Eesti Raudtee continues to be high, which is why we have increasingly focused on raising the safety awareness of the population and sharing preventive information. In 2022, our media coverage totalled 1,045 cases (2021: 1,156), of which 109 were positive, 69 were negative and 867 were neutral.

Estonian Railways has its own social media channels (Facebook, Instagram, LinkedIn and YouTube) to share information about the Company and its procurements and projects. Estonian Railways also promotes itself as a potential employer. We share prompt information through the websites of local authorities and the website of the transport operator providing passenger services. Estonian Railways wants to be a reliable partner for all interest groups.

Collaboration and membership

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

- The Community of European Railway and Infrastructure Companies (CER), headquartered in Brussels;
- Platform of Rail Infrastructure Managers in Europe (PRIME);
- Rail Freight Corridor: North Sea - Baltic (RfC 8);
- Association of European Railway Infrastructure Companies (RNE, RailNetEurope), headquartered in Vienna;
- BIC (Bureau of International Containers), headquartered in Paris;
- 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);
- Estonian Personnel Management Association (PARE);
- NGO Responsible Entrepreneurship Forum;
- Railway Professions Foundations (SA Raudteekutsed);
- NGO Transparency International Estonia (MTÜ Korruptsioonivaba Eesti).

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

- Organisation for Co-operation between Railways (OSJD), headquartered in Warsaw;
- Railway Council (CSZT).



ACTIVITIES AND RESULTS FOR 2022

Goal-based management

In 2022, Estonian Railways focused on improving the efficiency of internal processes, upgrading infrastructure and raising the safety level, and developing collaboration with customers and target groups. For Estonian Railways, it was positive that the state continues to allocate investment grants to the Company to finance its operations and meet its performance targets.

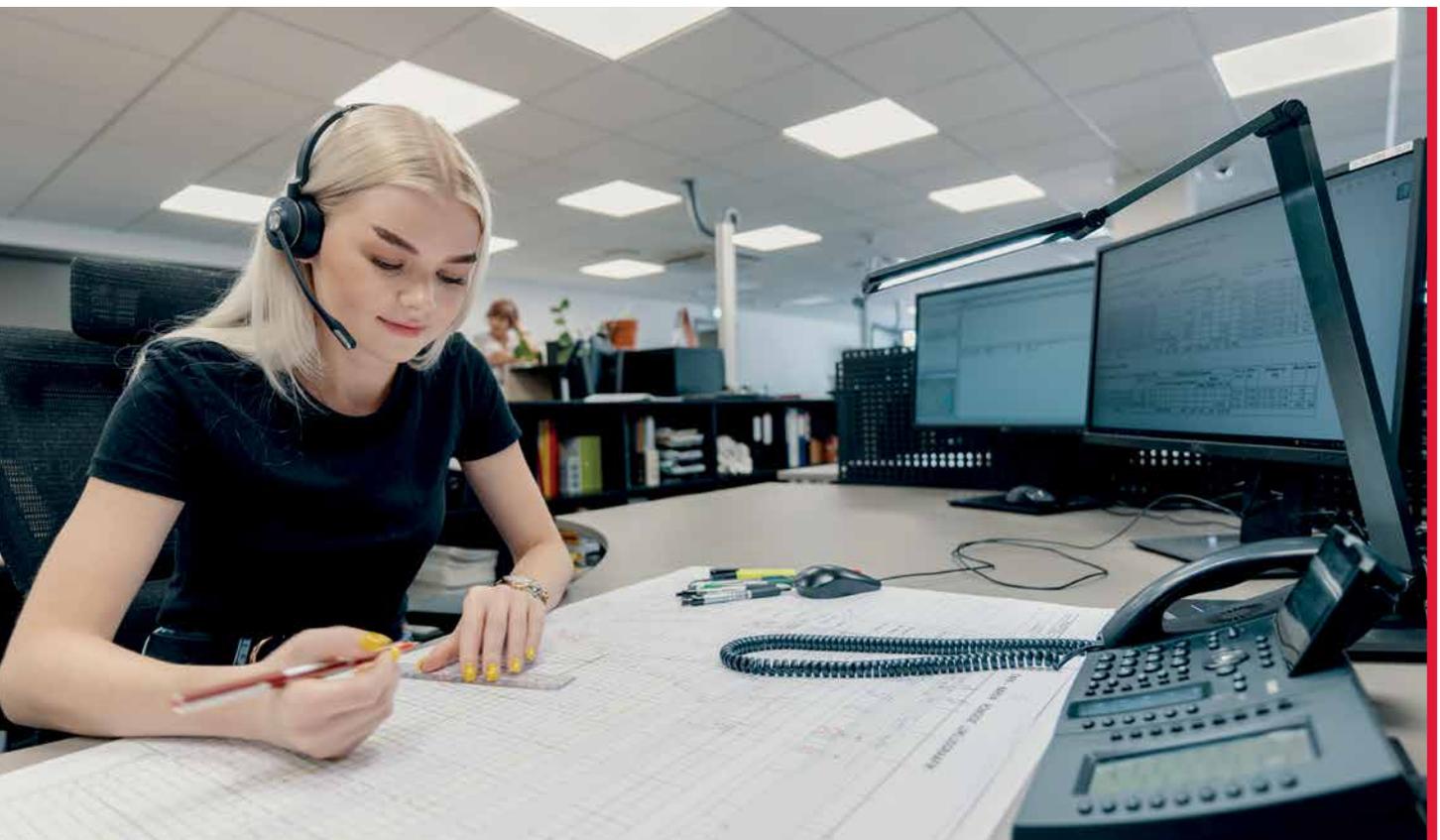
Based on the Company's strategy, 11 operating activities in four categories were set for the year 2022. The following table provides an overview of the fulfilment of the most important activities.



CATEGORY	GOAL	RESULT
 <p>INFRASTRUCTURE</p>	<ul style="list-style-type: none"> • EBITDA: at least EUR 22.8 million • 85% of the investment plan fulfilled • In the electrification project, the construction procurement of Aegviidu–Tapa–Tartu line carried out and an agreement on the connections of the substations of the section concluded • Reduction of non-essential assets, including 10 buildings, railway switches and crossings 	<ul style="list-style-type: none"> • EBITDA: EUR 23.6 million • 96% of the investment plan fulfilled • Construction work carried out and the contracts prepared for conclusion • Goal achieved, 5.7 km of non-essential stations and 15 switches dismantled
 <p>CUSTOMERS</p>	<ul style="list-style-type: none"> • Amber Train started • Compliance with the timetable at 99.1%, no more than 240 trains delayed due to malfunctions that obstruct train traffic 	<ul style="list-style-type: none"> • Goal achieved • Of the timetables affected by Eesti Raudtee, 99.5% were met in the case of freight trains and 99.4% in the case of passenger trains, and 210 trains were delayed.
 <p>INTERNAL PROCESSES</p>	<ul style="list-style-type: none"> • Estonian Railways granted ISO 27001 certificate for internal IT servicest • The Company's strategy for 2021-2028 updated • ITIL (Information Technology Infrastructure Library) service operation processes implemented, critical IT operations in the parallel data center duplicated, the IT strategy drawn up. • Assets of Reola-Koidula and Lääne-Harju railway line entered into the asset management module of the MS Dynamics 365 ERP system in the asset management project 	<ul style="list-style-type: none"> • Goal achieved • Goal achieved • The Estonian Railways' digital strategy for 2023-2028 and the action plan based on it were drawn up, several ITIL service processes were implemented, critical IT activities were duplicated • Assets of Lääne-Harju region were entered into the asset management module, in addition to the assets of Piusa-Koidula and Koidula-Reola railway lines stations and crossings
 <p>EMPLOYEES</p>	<ul style="list-style-type: none"> • The development programme for managers to increase competencies in conducting development interviews created, the development programme for project managers in the field of railway automation and telematics developed • Cyber hygiene trainings carried out, language immersion meetings organised • Employer brand fully launched, a survey of job satisfaction and commitment carried out, the CSR action plan updated, internship opportunities created 	<ul style="list-style-type: none"> • The goal was achieved in all points, for more details see chapter Training and development • Cyber hygiene training was carried out for more than 60% of employees, Estonian language learning principles were updated and the language mentors' programme was launched • Brand ambassadors programme was created involving 20 trainees, the CSR action plan was updated, job satisfaction survey was conducted

Based on the Company's strategy, Estonian Railways has set 11 goals for the year 2023, including:

- EBITDA at least EUR 23.1 million;
- The investment plan is fulfilled to the extent of 85% of the cash budget;
- The implementation of a long-term and ambitious investment programme is continued, and 8 stations are connected to dispatching;
- The security systems at Tapa station are modernised and a traffic control system scheduling module is introduced;
- In the electrification project, the design and construction procurements of Lagedi-Aegviidu section's contact network are carried out;
- Non-essential property is decreased, including 10 buildings, switches and station lines;
- Sales volume growth is supported, the first stage of automation of the calculation of infrastructure charges is completed;
- Due to infrastructure failures, no more than 230 trains are delayed and the adherence to the timetable is 99.2%;
- The safety management system is brought into line with the requirements of the Common Safety Methods Directive, the process of breaks in rail traffic during repairs is automated, and the processes of digital services based on ITIL practices are implemented;
- A training centre for traffic managers is established and the training strategy is updated;
- The Company's gold level award in the Responsible Business Forum Index is secured.



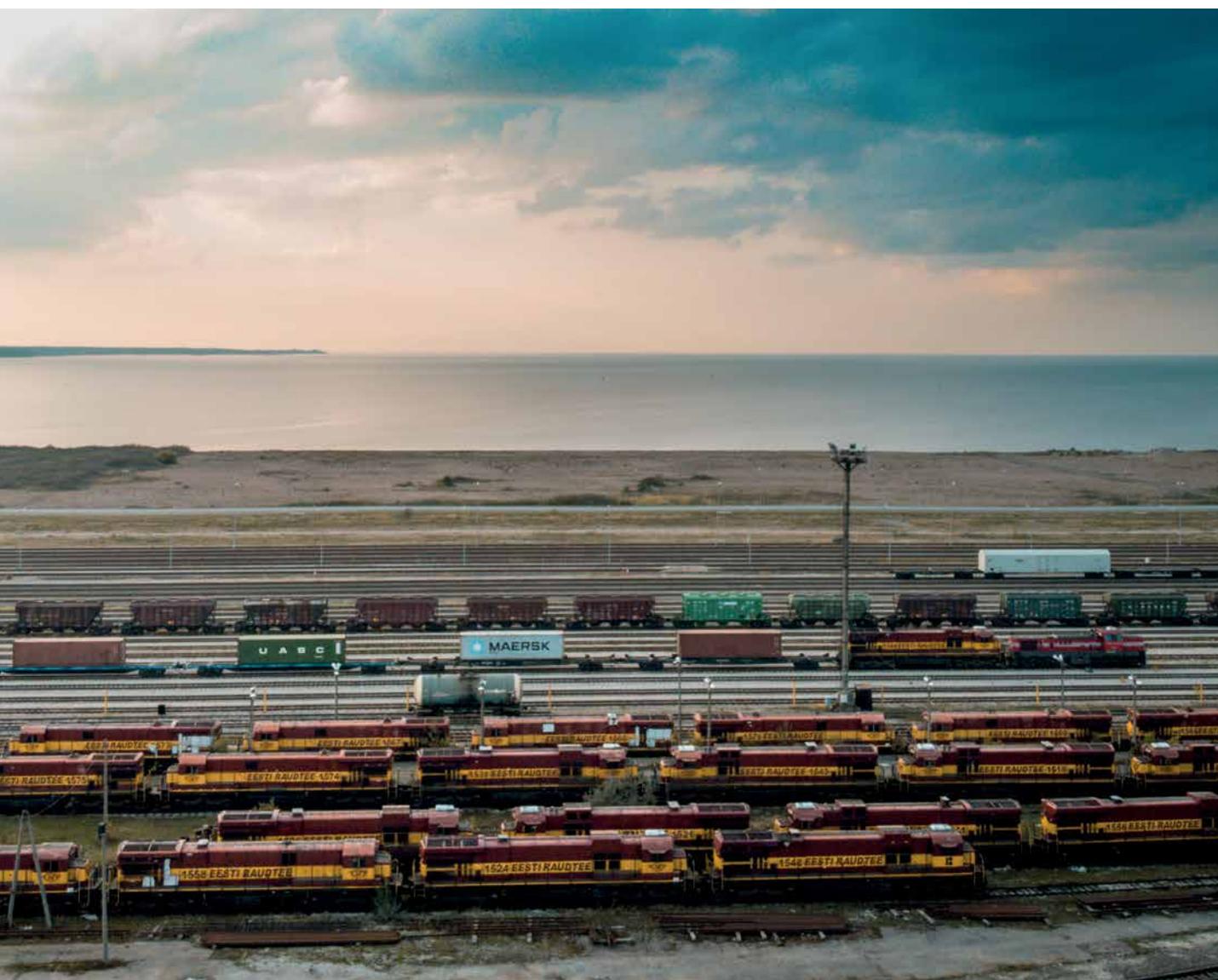
Financial indicators and ratios

(EUR millions)	2022	2021	2020	2019	2018
Total operating income	59.0	55.8	63.8	62.8	63.0
Revenue	29.4	32.8	31.1	39.5	41.5
incl. infrastructure services	24.7	29.3	28.4	34.4	36.7
incl. other services	4.7	3.5	2.7	3.5	4.8
Other revenue	29.6	23.0	32.7	23.3	21.5
incl. government grants for assets	7.9	7.1	7.8	5.3	4.9
incl. government grants to achieve performance targets	20.7	14.6	24.1	16.0	16.0
incl. other income	1.0	1.3	0.8	2.0	0.6
Operating profit before depreciation (EBITDA)	23.6	22.4	32.7	29.7	29.3
Net profit	0.0	0.0	7.1	8.9	8.6
Cash flow from operating	19.1	1.6	13.6	13.0	28.2
Investments	55.6	34.9	32.0	31.5	26.4
Assets at year-end	417.4	374.4	356.9	342.6	334.1
Equity at year-end	176.1	176.1	176.1	159.0	150.1
Interest-bearing liabilities at year-end	49.2	34.8	26.3	30.8	30.2
Total operating expenses	58.7	55.5	56.4	53.6	54.1
Incl. goods, materials and services	11.9	9.8	8.0	10.4	10.0
incl. miscellaneous operating expenses	4.4	3.5	4.3	3.8	5.2
incl. personal expenses	19.5	18.7	18.4	18.2	18.2
incl. depreciation and amortisation	23.3	22.1	25.3	20.5	20.4
incl. other expenses	-0.4	1.4	0.3	0.7	0.3

Operating volumes

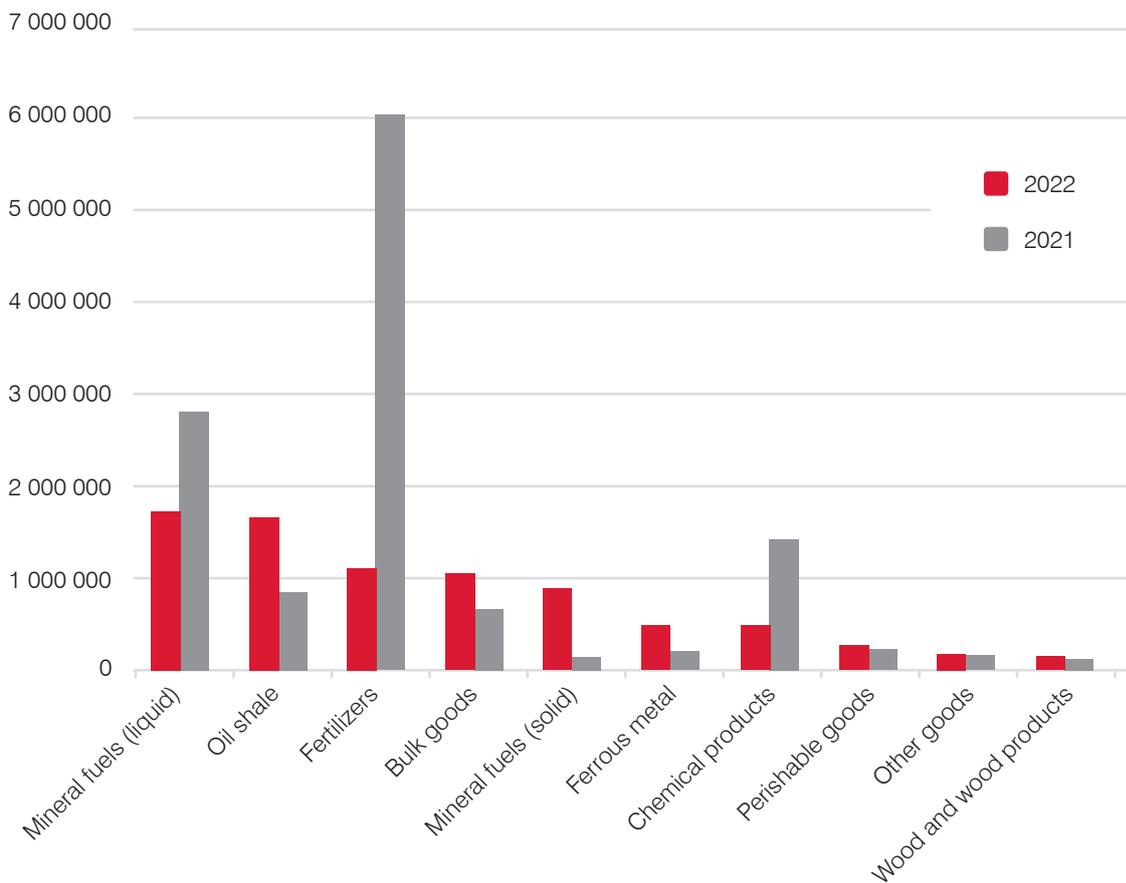
Four freight transport companies (AS Operail, AS Sillamäe Sadam, AS Enefit Power, AS GoRail) and two passenger transport companies (AS Eesti Liinirongid and AS Pasažieru vilciens) operated regular services on the Company's infrastructure designated for public use. From the scheduling period beginning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

In 2022, 7.83 million tonnes of goods were transported on the infrastructure of Estonian Railways. As compared to 2021, the freight volume decreased by 38.6%. Freight transport company Operail AS transported 80.5% of the goods (2021: 93.4%). As a result of the sanctions imposed against Russia and Belarus due to Russia's aggression against Ukraine, significant changes took place in the transport volumes and structure of the Estonian Railway infrastructure in 2022.

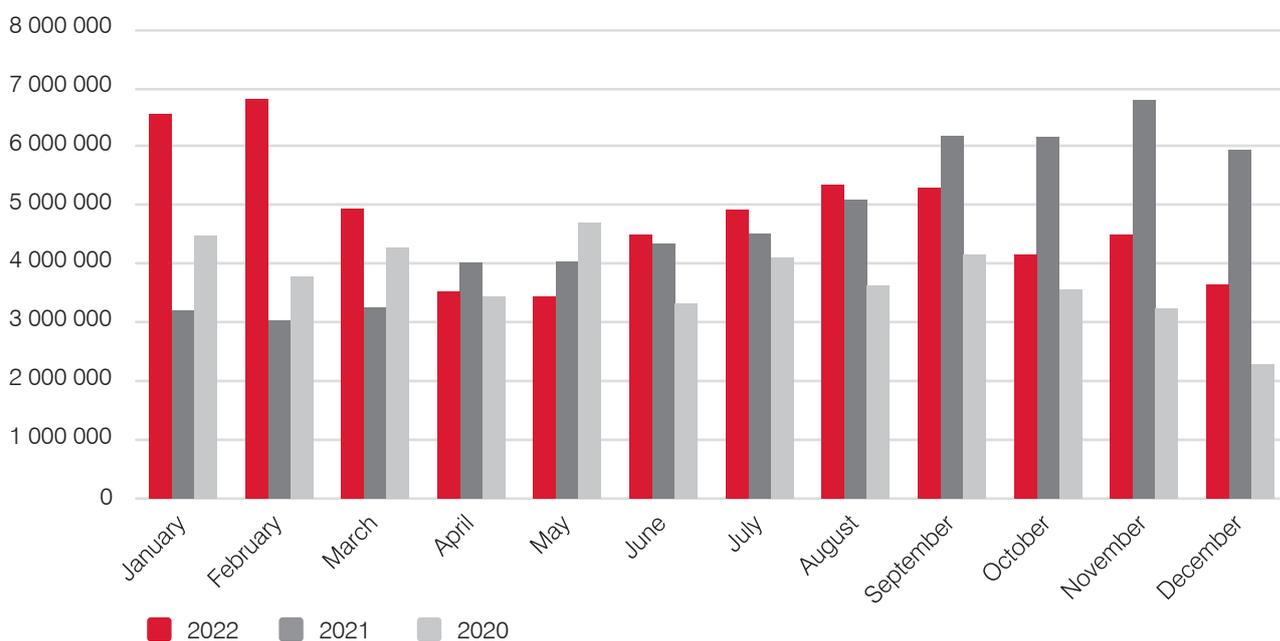


Liquid mineral fuels accounted for the largest share of goods in 2022, with a total of 1.62 million tonnes transported, a decrease of 42.6% compared to the previous year. 1.56 million tonnes of oil shale were transported, which was 2.1 times better than in 2021. In the first months of 2022, 1.08 million tonnes of fertilisers were transported, a decrease of 82.1% as compared to 2021. The transport volume of solid mineral fuels was 1.02 million tonnes, which is 54.7% more than in 2021. 1.30 million tonnes of various bulk goods and ferrous metals were transported, which is 3.6 times more than a year earlier. The volume of container transport in 2022 was 59.54 thousand TEU (twenty-foot equivalent unit), which was 5.5% more than in 2021.

TOP 10 freight (tons)

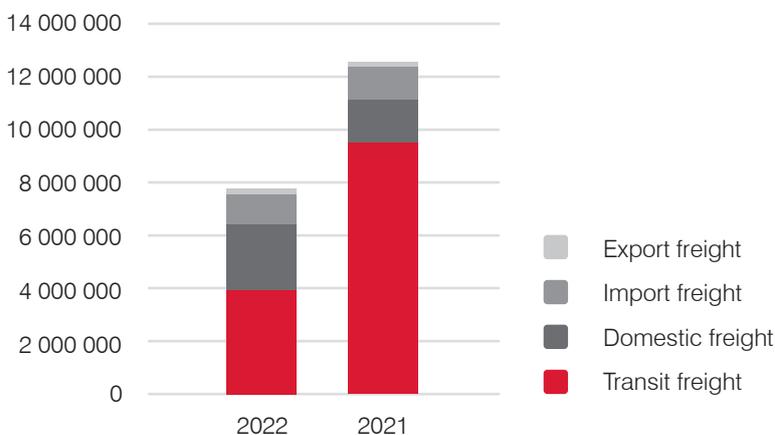


Monthly freight volume of containers 2021–2022 (TEU)



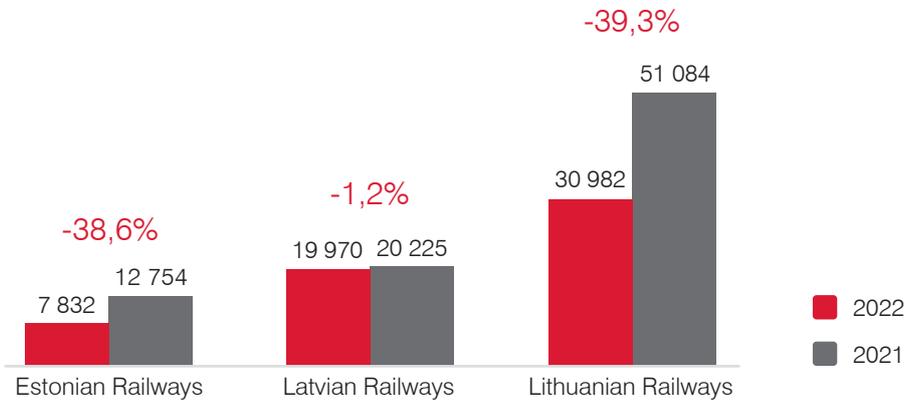
In 2022, transit shipments through Estonia totaled 3.91 million tonnes of goods, i.e., 59.0% less than in 2021. The share of transit shipments in total transport volume decreased from 74.7% in 2021 to 49.9% in 2022. The volume of domestic shipments increased by 45.7% and amounted to 2.60 million tonnes. As a result, domestic shipments accounted for 33.1% of the total volume (2021: 14.0%). Import shipments totalled 1.12 million tonnes, a decrease of 2.3%, and export shipments 0.20 million tonnes, a decrease of 29.2% as compared to 2021.

Volume (tonnes) and structure of freight transport by type 2021 – 2022



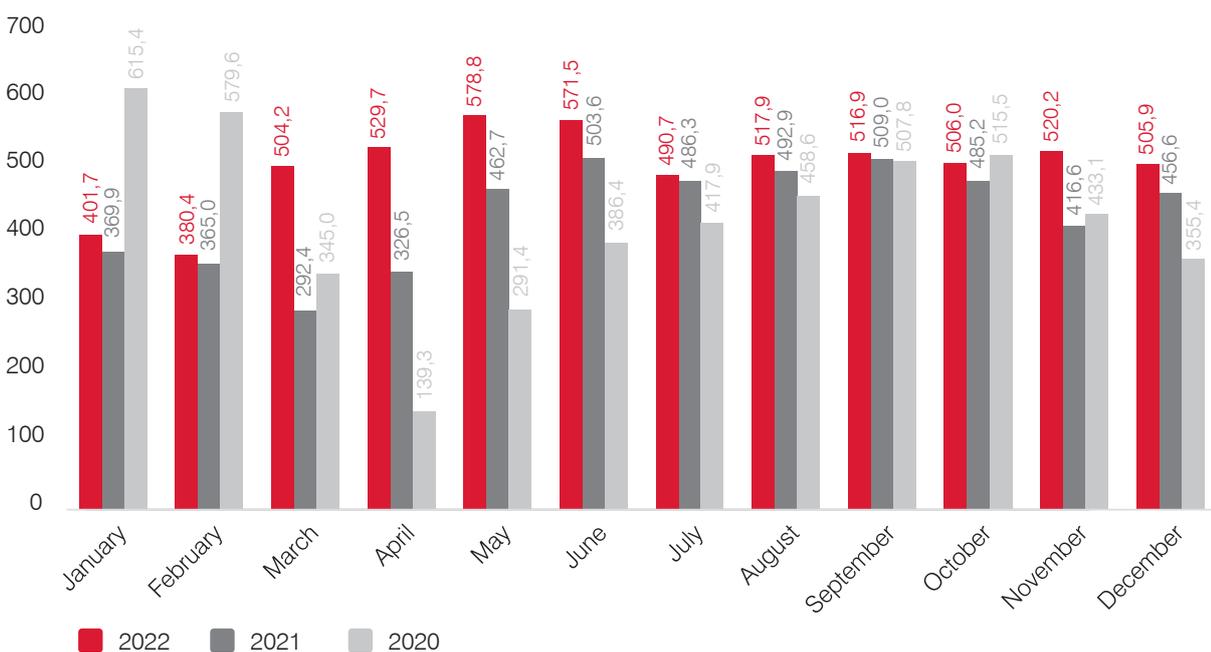
In 2022, the freight volume decreased on both Latvian and Lithuanian railways.

Freight volume on the public railway of the Baltic States 2021–2022 (thousand tonnes)



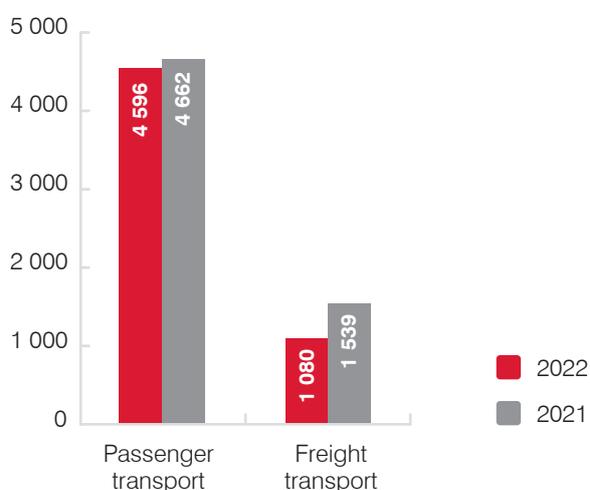
In 2022, 6.02 million passengers (+16.6%) were transported by diesel and electric trains operating on the infrastructure of Estonian Railways and a total of 7.13 million passengers (+17.3%) were transported in Estonia. There were no international rail passenger routes in 2021-2022. As a comparison with other Baltic countries, in 2022 the number of rail passengers was 15.7 million in Latvia and 4.2 million in Lithuania.

Monthly number of local passengers on the infrastructure of Estonian Railways 2020-2022 (excluding the line Tallinn/Tallinn-Väike, thousands)



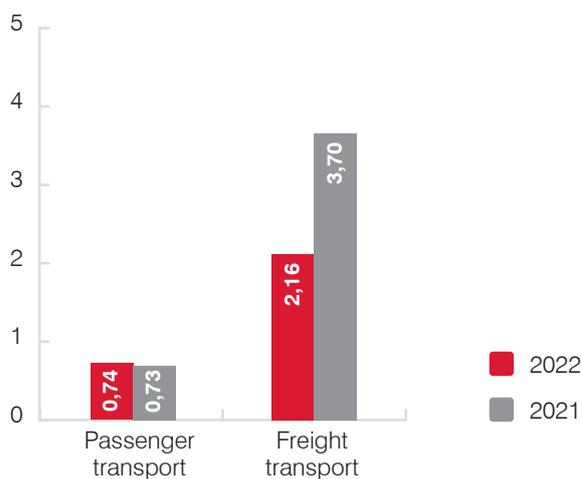
Passenger trains covered 4.60 million train-kilometres on the Company's infrastructure, which accounted for 81.0% of the total train usage (75.2% in 2021). The train kilometres of passenger trains decreased by 1.4% as compared to 2021 and that of freight trains by 29.8%.

Rail usage (thousand train km)



In 2022, the work of rolling stock totalled 2.90 billion gross tonne-kilometres on the infrastructure of Estonian Railways, including the work of freight trains of 2.16 billion gross tonne-kilometres, or 74.4% (2021: 83.5%). As compared to 2021, the work of freight trains decreased by 41.7% and the work of passenger trains increased by 1.7%.

Operation of rolling stock (billion gross tonne km)





RESPONSIBLE SERVICE



The Company's customers include all companies operating in the railway transport market, not only transport companies. We value each customer's interaction with Estonian Railways and contribute to improving the quality of customer experiences. That is why it is important for the Company to map customers' satisfaction with our services on an annual basis. In 2021, we started a more in-depth study of the customer experience, which we continued in 2022.

The feedback survey of Eesti Raudtee's customers in 2022 was conducted in November and its target groups were various railway undertakings, managers of public and non-public railway infrastructure and wagon owners. The survey was sent to 79 customers. 22 respondents from each target group (28% of the sample) took part in the survey.

The quality of information exchange with the Company was rated well by the customers: 23% of the respondents were very satisfied and 59% were rather satisfied (in 2021: 28% and 56%, respectively). The compliance of the services with customer requests was assessed as follows: 23% of the respondents were very satisfied, 50% were rather satisfied (in 2021: 34% and 50%, respectively).

Customer feedback in 2022 was clearly influenced by the international situation and the related difficulties of customers. Currently, the activities of many customers have stopped or significantly decreased. Overall satisfaction with our services was 74% (2021: 81%). In terms of expectations, it was pointed out that improvements in digital solutions are desired - more information on the homepage, new opportunities in the application of the transport management system, further development of paperless technology and automation of more processes.





The state of our infrastructure at the end of 2022

- Share of railway enabling fast traffic: 36% – 140 km/h, 17.6% – 135 km/h and 65.2% – 120 km/h;
- Passenger platforms in use are 100% compliant with the rolling stock in use;
- 90% of level crossings are in a good condition;
- 81% of level crossings are equipped with alarms and 33% with barriers;
- 64% of railroad facilities (bridges, overpasses, culverts) are in good condition;
- By the end of 2022, 90% of the stations and block posts in Lääne-Harju region were switched to new dispatcher centralisation.

Quality indicators in 2022

- Use of capacity in border stations: Narva 14.8%; Koidula 8.7%; Valga 22.8% (2021: 18.7%, 19.3% and 31.7% respectively);
- Adherence to passenger train schedule: 99.4% (2021: 99.6%);
- Adherence to freight train regime: 99.5% (2021: 99.1%);
- Number of disruptions: 1,612 (2021: 1,679).

Infrastructure renewal and maintenance



Construction work

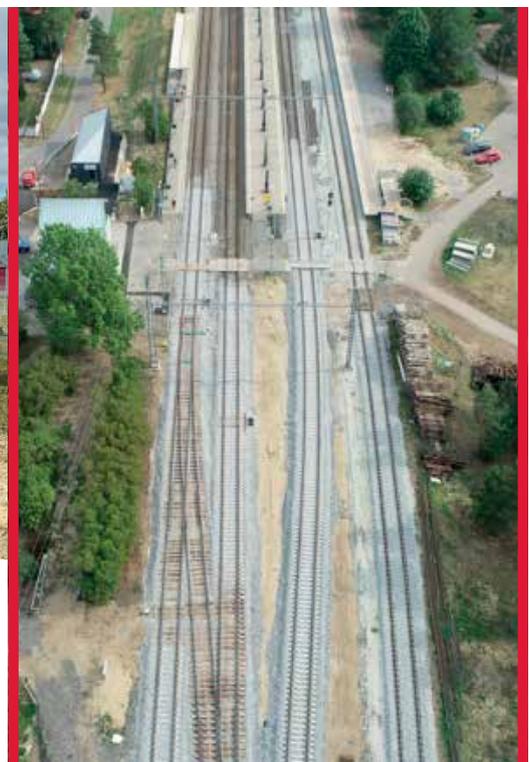
2022 was a busy year in railway construction. A key bottleneck was eliminated within the framework of **Lääne-Harju project**, i.e. another **main track** was completed **in the section between Pääsküla and Keila** including a contact network. Several new **railway facilities** were completed – the new Keila railway bridge, Urda and Laagri waiting platforms, Topi railway viaduct, Laagri pedestrian underpass. In connection with the addition of the second main track, the roads and switches of Pääsküla station were reconstructed. At the beginning of 2022, a **traffic management system** was completed at Balti station. Within the framework of the same project, Telliskivi, Hiiu and Nõmme **railway crossings** were renewed.

Work on the **overhaul of the railway** began on the section between Aegviidu and Tapa, the aim of which is to increase speeds on Tallinn-Tartu route. In Tapa, the reconstruction of the sorting hill was launched, the main objective of which is to transfer the sorting activities of wagons from Ülemiste station to Tapa.

In 2022, the procurement of the first phase of the **electrification project** was carried out. As a result of the procurement, a contract will be concluded for the design, construction and operation of Aegviidu-Tapa-Tartu's new contact network. The call for tenders was launched in September and the deadline for submission of tenders was December. The contract with the best bidder is planned to be signed in January 2023.

We continued with projects to **modernize safety systems**. As part of the project, the Estonian branch office of Siemens Mobility and GRK Rail Oy completed the software of Tapa station. The necessary equipment was procured for the renewal of Tartu-Koidula line. In addition, we announced contracts for building works for Tartu-Koidula line and Tapa station. For the production and delivery of the switch drives used in the project, we signed a contract with the Czech company AŽD Praha. In order to increase safety, we decided at the end of 2022 that we would introduce a solution with four barriers for level crossings where the speeds of trains are higher.

In cooperation with **local governments**, **pedestrian underpasses** were completed in Keila, Tuula and Jõhvi, and cooperation was also started for the construction of two new pedestrian underpasses in the city of Tartu.



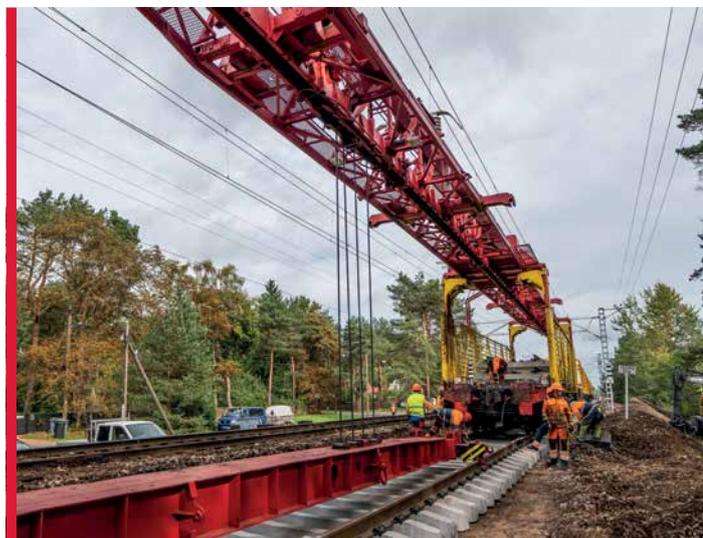


Railway track

The planned maintenance of the railway in 2022 was aimed at achieving and maintaining safe train traffic at the set speeds.

The main maintenance works were as follows:

- railway tamping with equipment on more than 113.8 kilometres (+45% compared to 2021);
- railway tamping with equipment of 44 switches (+26% compared to 2021);
- Fastclip-type rail fastener maintenance on 6.6 kilometres (-75% compared to 2021);
- KB-type rail fastening maintenance on 15.8 kilometres (+296% compared to 2021);
- replacing 3,900 wooden sleepers (+28% compared to 2021) and 774 point beams (+188% compared to 2021);
- 94 thermite welding (-81% compared to 2021) and 67 cross-rail surface welding (-25% compared to 2021) were completed;
- 50 contact welding was completed (+100% compared to 2021);
- replaced 4500 metres of long rail (+100% compared to 2021).



In 2022, in-depth analyses of the condition of railway facilities were carried out, converting the results into a single scale (see below).

CI (condition Index)

0-25 points – needs constant attention

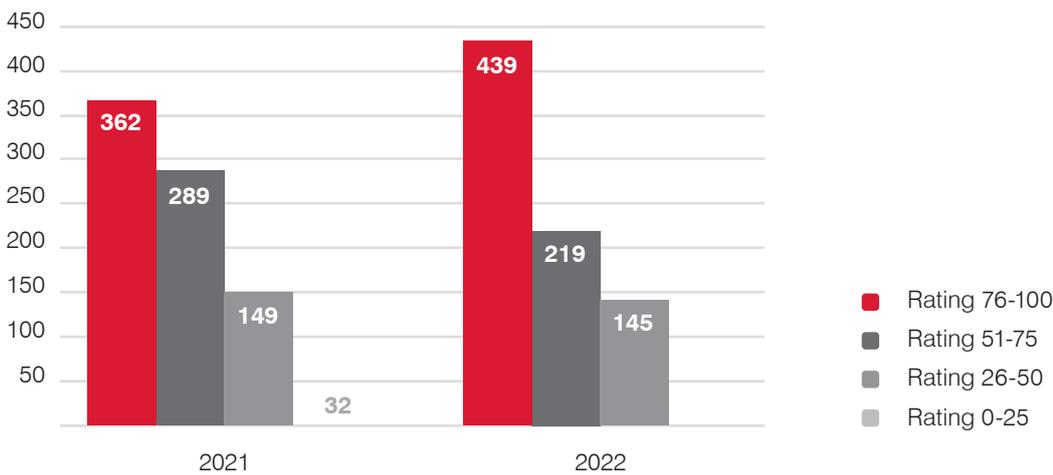
26-50 points – needs attention

51-75 points – in good condition

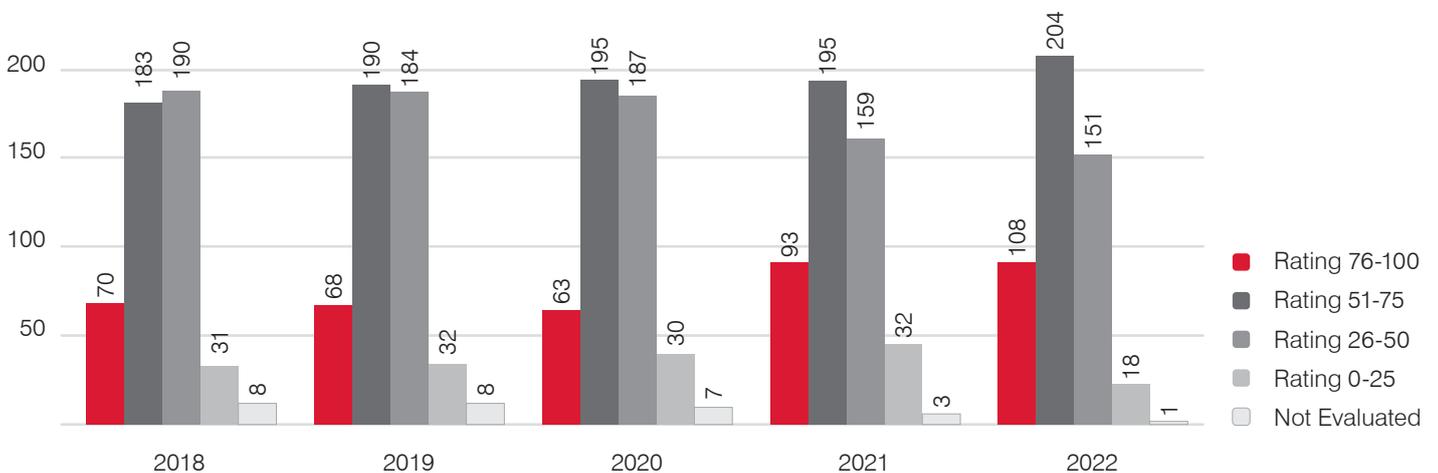
76-100 points – in very good condition

The average rating for the main railway tracks of Estonian Railways was 72 (+2 compared to 2021), for bridges and culverts 59 (+3 compared to 2021) and for level crossings 81 (-1 compared to 2021).

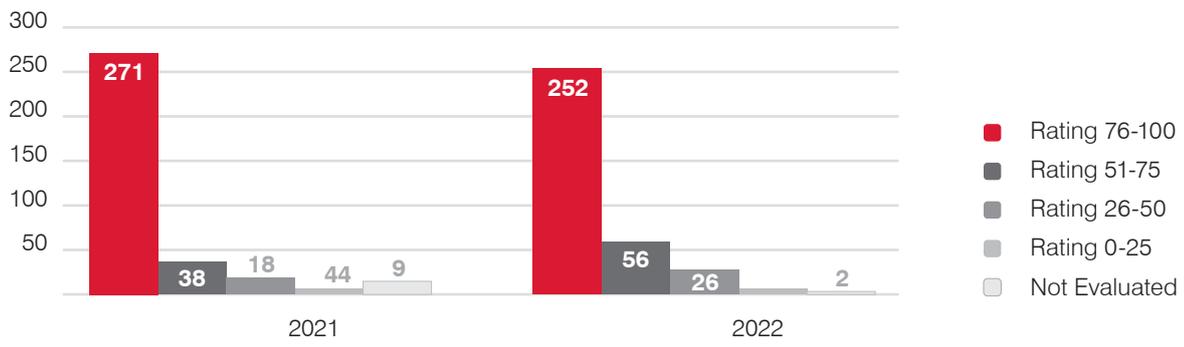
EVR rails CI rating (total length km)



EVR railroad facilities with CI rating (pcs)



EVR level crossings with CI rating (pcs)





Electricity networks

During 2022, as in previous years, several new power supply points for new safety systems were built, traffic light systems were upgraded, electrical heating of switches, etc. were built. AS Eesti Raudtee is also engaged in electricity brokerage, which means that the electricity procured is sold to sub-consumers, the largest of which is AS Eesti Liinirongid (Elron). This means that the electric trains of Elron run on electricity supplied by Estonian Railways. In 2022, a public procurement was carried out, as a result of which a two-year power purchase contract for an estimated quantity of 80 GWh was concluded with AS Alexela in November. Similarly to the previous contract, all electricity comes from renewable sources, as a result of which all Estonian electric trains use only renewable electricity.

At the same time, rising electricity prices are increasingly forcing us to look for solutions to reduce electricity consumption. One option is to build local generation systems. In 2022, Estonian Railways completed its first solar park with a capacity of 50 kW at Tapa station. The solar park started producing electricity in May and generated 35.27 MWh of electricity until the end of the year. Based on the results of the pilot project, the construction of new and more powerful solar parks is planned for 2023.

For the purposes of energy efficiency, it is important to accurately identify the consumption of different systems as well as energy losses. To this end, Estonian Railways continues to implement the project of remotely readable meters, which slowed down in 2021 due to the situation on the electronics market, but which we continued in 2022. A new procurement was carried out, as a result of which the Company will receive a large number of new meters in 2023, which will allow us to collect more accurate consumption data than before. This will also help to assess the condition of networks and equipment. Every year, investments are also made in the renewal of electricity networks and equipment, and the Company considers the state of its networks to be completely satisfactory.





Real estate

Major works carried out by the real estate maintenance department in 2022 included the preparation of the restoration of Tapa railway station building and the water tower's outdoor perimeter, the replacement of the roof cover of Orava and Veriora station buildings, the construction of an exhaust gas extraction system for the heavy machinery garage on Näituse street in Tartu, the installation of air conditioners in various buildings, the construction of a parking lot on the Toompuiestee property for the Company's employees, the upgrading of security systems in Kohtla, Sangaste, Rakvere, Keeni, Palupera, Puka, Muuga railway stations and the buildings on Tehnika street. In cooperation with local governments, Tapa School of Music and Art and other external partners, the pedestrian underpasses in Tamsalu, Lilleküla and Ülemiste were renovated.



RAILWAY SAFETY AND SECURITY



The objective of Estonian Railways is to prevent incidents and emergencies affecting railway safety, to ensure the provision of safe railway infrastructure and the management of train traffic, as well as safety for railway workers and the general public.

Our contribution in numbers.

14
pedestrian underpasses constructed in recent years

More than 62 km of fences erected. to prevent the railcrossing at the wrong place

50 barrier-equipped level crossings (of total of 150), 104 crossings will be equipped with barriers by 2025

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

122 sound signal equipped level crossings (total of 150)



More than EUR 11 million of investments for the installation of new safety equipment on 107 level crossings and 9 pedestrian crossings

467 persons (181 employees of Estonian Railways and 186 infrastructure employees and 100 first responders) attended safety related training courses in 2022 (2021: 570 employees)

More than 650 children at school and in kindergarten attended railway safety training courses from our employees in 2022 (2021: 700)



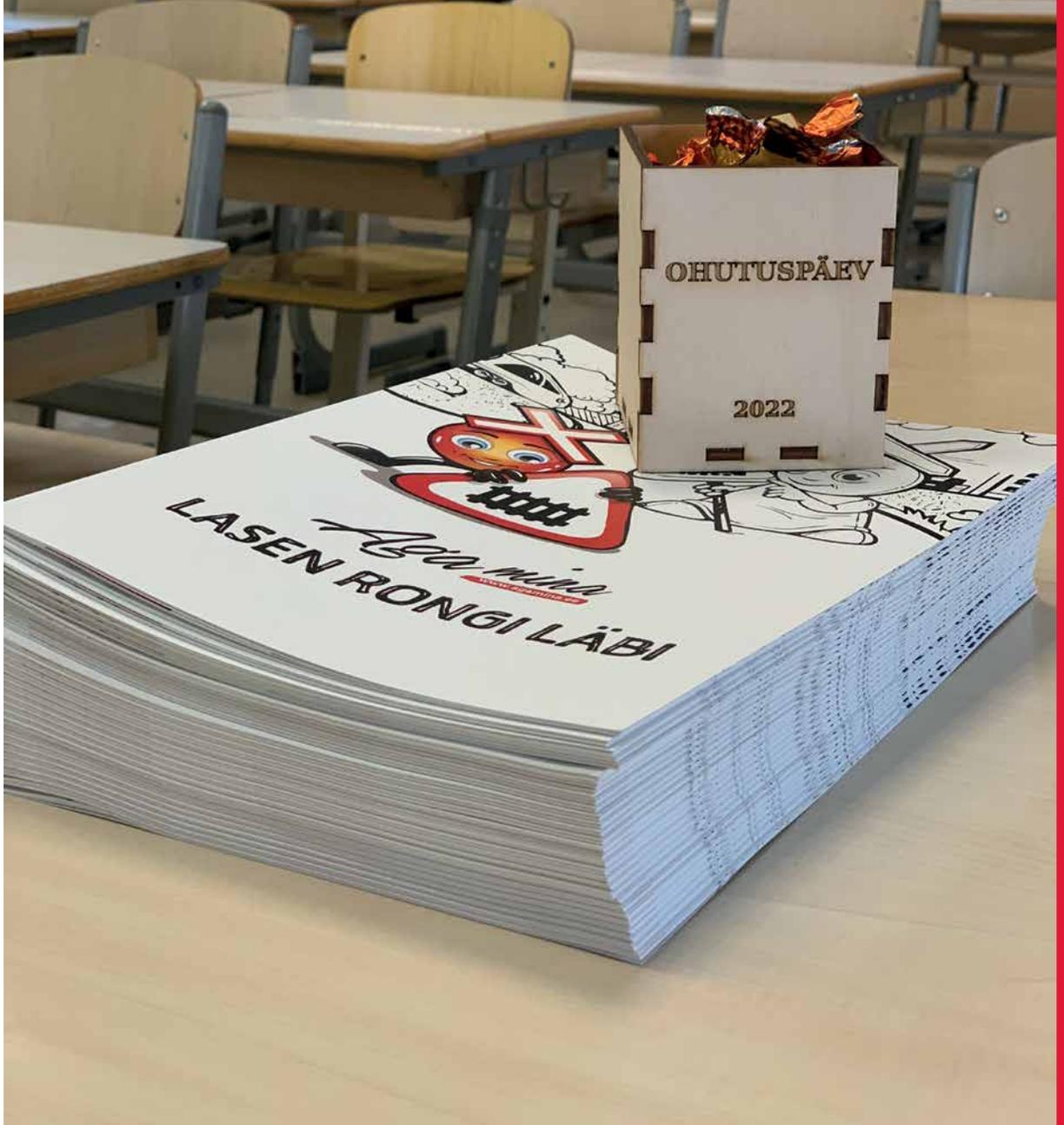
Preventive work

NGO Operation Lifesaver Estonia (OLE), founded by us, has almost all Estonian railway companies as its members. Every year it organises railway safety lectures in kindergartens and schools, and in 2022 reached up to 4,000 children with its safety information. We also collaborated with OLE in 2022 in carrying out several public campaigns to increase rail safety by focusing on crossing the railway by bicycle (“Get off the bike and let the train through”, “You are expected home for Christmas”). A railway safety week was organised.

Rescue capacity

Estonian Railways has high rescue capacity and excellent technology as well as constant crisis preparedness. We also use our special equipment to help other railway companies, even in the event of accidents that do not affect the railway. In addition to eliminating the consequences of a serious accident (see next page), a rescue train was ordered in 2022 to help lift railway stock that derailed on non-public railways back onto the tracks. During the year, the railway cranes underwent all the required technical audits, which ensured the necessary readiness for the future.





Incidents

Railway safety incidents are classified as major accidents, accidents, incidents and technical incidents. In 2022, there was a major accident that took place on 11 March 2022 at Ropka level crossing. A passenger train collided with the semi-trailer on the crossing, as a result of which the train got derailed, eight passengers on the train were injured, and the passenger train and the infrastructure suffered significant damage. The Safety Investigation Bureau had not completed its investigation by the end of 2022. There was also one major accident in 2021.

In addition to the major accident, there were ten accidents in 2022 (2021: 13), including two train-car collisions at a level crossing, seven train-person collisions and one railway vehicle fire. A total of 19 people were injured in accidents (including a major accident), including five who died. Four of the victims committed suicide and one person died in a collision between a passenger train and a minibus at Veski railway crossing.

There was a total of five incidents (2021: 11). While before 2022 the incidents were generally rail fractures, in 2022 there were two rail fractures, and the other three incidents were speeding of passenger trains that endangered train traffic. There were 340 technical incidents in 2022 (2021: 342). On the positive side, there were fewer incidents related to infrastructure works compared to the previous period.

In 2022, there were a total of 270 cases of vandalism (2021: 242), the majority of which were mowing down of barriers. The increase as compared to 2021 was linked to the scribbling of war symbols on wagons from third countries and the increasing number of people being outside of designated places after lifting of COVID-19 restrictions.



Information and cyber security

The goal of the information security policy of Estonian Railways is to ensure uninterrupted functioning of the main and support processes and sufficient protection of personal data and trade secrets handled at the Company. Therefore, in 2022, we passed the ISO 27001:2013 audit and were granted the respective information security certificate. The Company's goal is to prevent information security incidents. In order to ensure the security, availability and integrity of our information, we assess the respective risks and implement the necessary mitigation measures. 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 2022, the major cyber security incidents included denial-of-service attacks targeted at the website of Estonian Railways, which temporarily caused the website to be down.

In 2022, we also continued cyber security training courses for all our employees that were attended by 60% of the target group (422 employees, 35 middle managers and 7 top-level managers).



INNOVATION AND DIGITALISATION

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



Key activities in 2022

- Within the **automation of the traffic management project**, 94% of the solution's functional and technical design volume was completed in 2022, a series of factory tests of the system module was started and the first pilot training for the Company's employees was carried out.
- We launched an **infrastructure digital task management project** that enables digitally planning maintenance and fault elimination, provides an overview of completed tasks, materials used and resources spent.
- **A pilot project for data collection and analysis** of Lääne-Harju point drives was prepared, which will enable the transition to preventive maintenance.
- We developed a **geographic information system (GIS)** solution to display linear and spatial locations of assets.
- The use of **MS Power BI** for analysis of large projects was expanded.



SUSTAINABLE SUPPLY CHAIN

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

Socio-economic impact of procurements

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

During 2022, 238 procurement contracts with the value of just over EUR 179 million were awarded (2021: 201 contracts in the total amount of approximately EUR 90 million). The overwhelming majority, 92% (2021: 89%) of procurement contracts, have been concluded with Estonian entrepreneurs or the Estonian entrepreneur is a joint partner of a foreign entrepreneur. This percentage has remained at a similar level over the years, so the contribution of Estonian Railways as a supplier to the local economy is stably significant. In addition to the above, 106 order letters and contracts with a total value of almost EUR 500,000 have been prepared in the framework of small procurements and purchases.

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 documents of public procurements. We also expect procurement participants and our cooperation partners to provide quality services in compliance with contract terms.

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



ENVIRONMENTAL IMPACT AND MANAGEMENT

Climate neutrality and resilience to climate change

In 2022, an assessment of resilience to climate change (the so-called climate resilience analysis) was carried out together with an inventory of greenhouse gas emissions in the scope of projects such as the electrification of the railway on Tallinn-Tartu and Tapa-Narva railway lines and the straightening of curves and overhaul of the railway on Tapa-Narva and Tallinn-Tartu-Koidula railway lines. It was found that climatic risks (e.g., frost formation due to increased freezing/thawing conditions, heat waves, increased storms and winter storms) have to be taken into account when operating the railway infrastructure. However, these are not any significant risks that could have a major impact on the permanent transport on railway infrastructure.

All in all, these studies concluded that the opportunities for climate vulnerability in the investment projects of Estonian Railways are small or the potential climate risks are insignificant and a detailed assessment of climate risks is not necessary. Thus, these projects are in line with the climate neutrality and energy efficiency goals of Estonia and the European Union, and by implementing them, Estonian society will save 16 thousand tonnes of CO₂ per year.

In 2022, we underwent a regular audit of ISO 14001, which we passed without significant environmental findings. In the Estonian Environmental Management Association, where we are one of the founding members, we are responsible for steering the Committee on Professional Standards and Good Practice for Environmental Managers, which assesses the competence and work culture of environmental consultants.

Noise and vibration

While the main aspect of the environmental impact of our operations was the management of hazardous waste (old obsolete wooden sleepers containing creosote that were in use last year), today the focus has shifted to reducing the noise and vibration caused by railway traffic.

Vibration can be felt most often in buildings located right next to the railway, in the railway protection zone. According to studies, the range of vibration caused by train traffic is about 25 meters, so the vibration does not spread beyond the railway protection zone. Depending on the type of soil, the transmission of vibration through the ground varies: the denser the soil, the better it dampens the vibration. In the vicinity of the railway, there are predominantly geologically high-bearing soils with lower vibration transmission properties.

In September 2022, we carried out a noise and vibration assessment in the Rohu street area of Tallinn. This was a special case in a sense that we have not previously measured vibration in a dwelling house that is so close to the railway, about 25 metres from the outer rail. However, both noise and vibration remained within normal limits.



To reduce vibration and noise, Estonian Railways uses welded rails when constructing new railway sections. Washers installed between sleepers and rails also help reduce noise. We have built noise barriers in Tartu and Muuga, for example. In 2022, we started testing in Laagri of noise dampeners manufactured in Japan.

We also built the first natural noise wall in Laagri in the municipality of Saue.



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.

Already at the beginning of 2021, Estonian Railways switched to using certified renewable electricity. In 2022, the Company purchased 34.5 GWh of electricity, which is equivalent to the annual energy consumption of about 10,000 households per year. In 2022, approximately 40% of the purchased electricity, i.e., 14.6 GWh was used for the infrastructure of Estonian Railways (2021: 16.8 GWh). It is used for operating railway management systems and stations, providing lighting for the infrastructure, melting snow and ice from switches in winter. One of the Company's goals is to reduce electricity consumption. Activities have started, as a result of which the Company's own consumption of electricity in 2023 must not exceed 14 GWh.

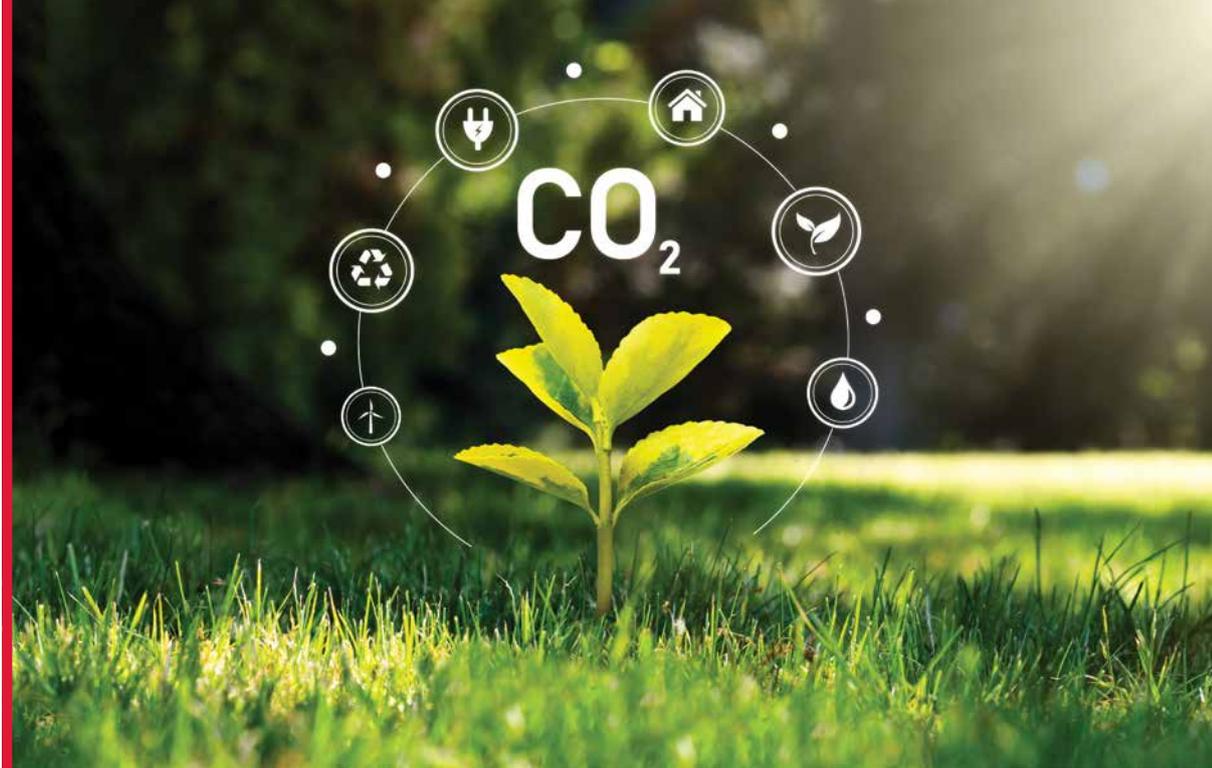
The electric trains of Elron, provider of passenger transport, consume approximately 40% of the energy ordered through four transport substations, and 20% of the energy is used by other consumers who are linked to the network of Estonian Railways. The transition to energy from renewable sources has made a significant contribution to environmental protection.

Estonian Railways has opted for more sustainable heating systems. At the moment, we only have two major boiler plants in which we calculate emissions into the ambient air every quarter – the light fuel oil boiler plant in Muuga and the gas boiler plant in Narva. In total, these two boiler plants emitted 253 tonnes of CO₂ and 0.652 tonnes of other emissions in 2022 (more detailed data is provided in the GRI index at the end of the report).

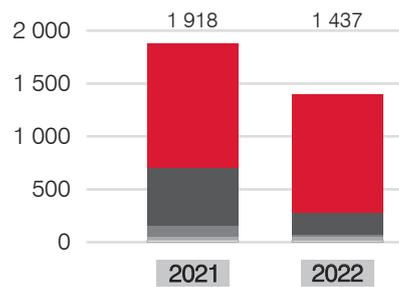
Carbon footprint

Resource	Unit of measurement	2022	2021
Natural gas	m ³	53,324	58,722
Heating oil	litres	50,000	42,453
Diesel fuel for cars	litres	368,303	384,656
Gasoline	litres	11,867	10,706
Aviation fuel for dispatches (based on mileage)	km	84,863	102,247

To absorb this amount of carbon dioxide, 73,608 trees (2021: 88,658) would have been needed or a 2.3 MW wind turbine operated for 5,888 hours (2021: 7,093) in 2022.



Change in the carbon footprint of Estonian Railways (tonnes of CO₂)



■ Diesel fuel for cars	1 206	1 201
■ Heating oil	556	159
■ Natural gas	107	27
■ Gasoline	30	33
■ Aviation fuel in relation to business trips	19	17

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 biodegradable lubricant and for lubrication, we use pressure guns that can be adjusted to dispense the minimum necessary quantity on switch pads. The new switches to be installed are already lubricant-free.

For weed control we have used glyphosate-based herbicides. Herbicides containing glyphosate were allowed to be used until 15 December 2022. By that time, we must also have an environmentally friendly alternative. For years we have searched for more environmentally friendly options. According to the information received from the Agricultural and Food Board, such an alternative does not exist today, and glyphosate-based weed killers are allowed to be used by professional users in the future.

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.

In 2022, we disposed of 8000 tonnes of wooden sleepers. We generated a total of 6.8 tonnes of other hazardous and problematic waste, the majority of which consisted of plastic parts used in railway construction.

For three years, Estonian Railways no longer procures wooden sleepers as part of new construction projects. All new railway sections are built on concrete sleepers.

We have two sites with waste permits for storing sleepers, in Tapa and Tallinn. Both sites have insurance and guarantees for the disposal of hazardous waste in accordance with applicable legislation.

Quantities of other hazardous waste disposed of (kg)	2022	2021
Rubber insulation materials	516	30,020
Plastic	1,037	44,424
Packaging of hazardous substances	844	97
Absorbents, cleaning cloths	264	112
Other engine, gear and lubricating oils	562	570
Batteries and small accumulators	32	83
Fluorescent lamps	159	68
Construction and demolition waste	536	340
Tires	346	1,887
Large equipment containing hazardous parts	1,704	1,894
Bitumen	671	1,580
Laboratory chemicals	150	0
Other waste	0	485
Total	6,821	81,560

Leakes 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 2022, 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 facilities.

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 2022, we determined the location of protected plants on several occasions. It was found out that the railway is suitable for the habitation of many protected plants, which is why they feel very good in our protective zone. Unfortunately, we still have to conduct a few replantings in the spring so that we can carry out the necessary work in the railway area to ensure safety and increase speeds.

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



Green office

We launched a green office management system at the head office of Estonian Railways already in 2019. In 2022, a certification audit was carried out, which we successfully passed. The respective certificate is a testimony of our ability to follow sustainable operation principles with regard to creating a healthy working environment, using of natural resources as well as organising procurements and making purchases.

For this purpose:

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

The Company's employees are increasingly environmentally-conscious and wish to contribute even more to environmental protection. In 2022, we focused more than before on supporting employees' sports activities. The Company set up a sports club which during the year carried out more than ten sports activities and competitions for our employees (e.g. canoe trip, participation in various races, bowling tournament, the series for the title of the most athletic state institution, Suvespartakiaad summer games, go-karting competition).



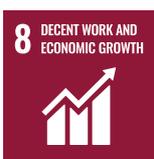
The “Step Hunting” competition “To Haapsalu and back!” was held among the employees of Estonian Railways to motivate employees to walk as much as possible on foot. The goal was to promote healthy and environmentally friendly movement. The steps accumulated in the competition virtually covered the entire route 74 times. In total, eight teams and one brave individual contestant participated in the challenge, taking a total of 11,243,935 steps.



Relations with local communities

In one way or another, a lot of people in Estonia are 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. When 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.

WORKING ENVIRONMENT



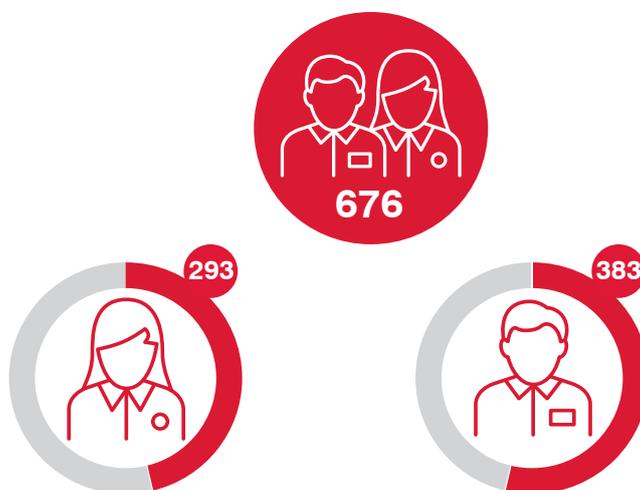
The key topics in human resources include ensuring succession of staff with solid railway knowledge, development of employees by supporting the use of technological solutions, recruiting new employees from the labour market and all-important occupational safety.

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

Overview and general information

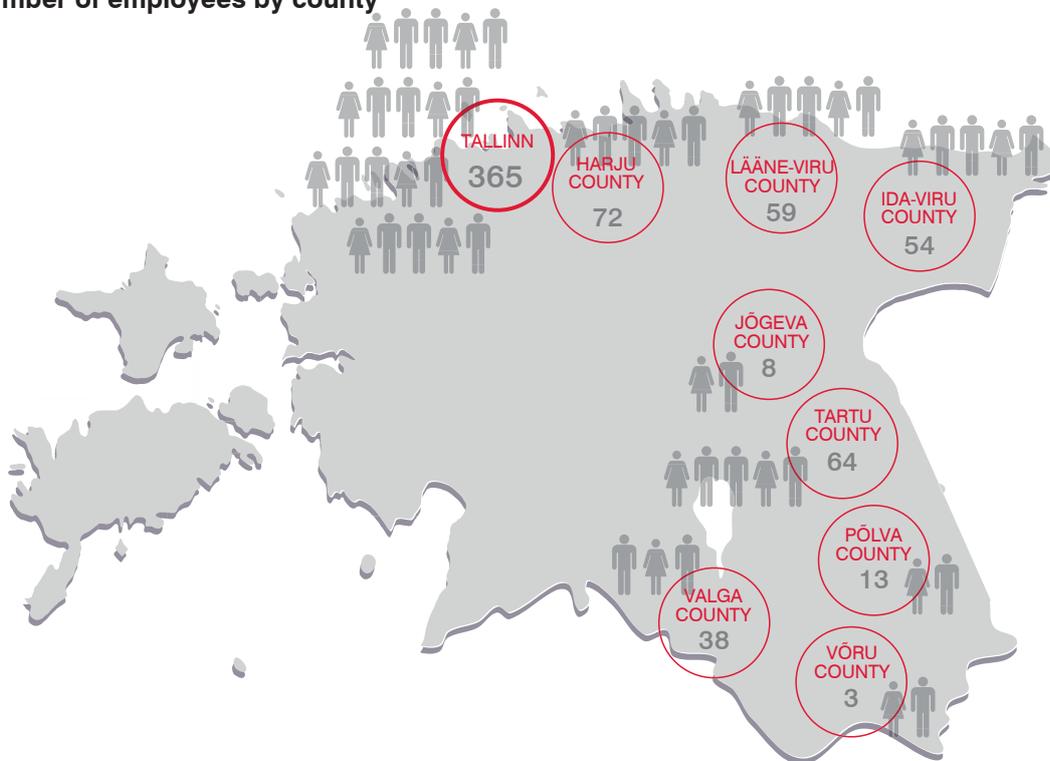
Estonian Railways employs almost 700 employees: the average number of employees in 2022 was 679, at the end of the year, Estonian Railways had 676 employees. Most of the employees worked in infrastructure and traffic services, 342 and 214, respectively. The share of women and men in the Company is almost the same (57% are men and 43% are women), whereas the biggest variations occur in the construction service (8 women, 13 men), security service (2 women, 18 men), and infrastructure service (43 women, 299 men). Estonian Railways also employs four Ukrainian war refugees who work in railway construction and energy.

The average length of service of our employees is 18 years. Staff turnover was 7.5% in 2022 (2021: 6.2%). The average age of employees is 51 years.



Number of employees, year-end	TOTAL	Women	Men
2021	683	308	375
2022	676	293	383
Younger than 30	31	7	24
30-49 year-olds	228	85	143
50 or older	417	201	216
incl. 60 years and older	157	77	80
incl. retirement-age	70	31	39

Number of employees by county



	TOTAL	Women	Men
Number of new employees	72	16	56
Number of employees who left the Company	76	30	46

The increase in the number of employees has been caused by the staff with project management, construction, energy, mechatronics, automation and IT skills, actively recruited for major projects, which we will continue to need in the coming years.

Employer reputation, staffing and fair recruitment

The Company measures the commitment and satisfaction of its employees with satisfaction surveys that are held every other year. A survey on employee satisfaction and commitment was conducted in October 2022, with as many as 80% of employees giving feedback (2020: 67%), which is a very good result compared to the comparison group. High and average ratings for cooperation increased from 35% to 41%, and the employer recommendation index remained at 82%. Employee satisfaction has improved compared to the survey conducted in 2020, and immediate management and a trust-building management culture have emerged as factors influencing satisfaction.



In 2022, one of the important topics was improving the reputation of Estonian Railways as an employer and ensuring succession. In the Instar Employer Attractiveness 2022 survey conducted among students, we were ranked 102nd out of 249 (2021: 123rd). Students of vocational schools ranked us 69th (2021: 117th). Thus, it can be said that the attractiveness of the Company among young people has increased.

To ensure the succession of employees, we cooperate with universities, higher education establishments and vocational schools. The Chairman of the Supervisory Board of Estonian Railways is also a member of the Advisory Board of TTK University of Applied Sciences (TTK UAS). As an expert in the field, a representative of Estonian Railways belongs to the program advisory boards of Tallinn University of Technology (TalTech) Master's degree program in logistics and Bachelor's degree program in business. The Company's employees were lecturers in many subjects, supervisors of dissertations at all levels of higher education or were members of the dissertation defense committees at TTK UAS and TalTech.

In 2022, we introduced employment and internship opportunities of Estonian Railways at Ida-Viru Vocational Education Centre and Tallinn Polytechnic. In February, a competition for the manufacture of railway models, organised by the Faculty of Engineering of TalTech and originating from one of our scholarship ideas, was held at TalTech, where the employees of Estonian Railways' construction service acted as consultants. Estonian Railways also presented prizes to the best teams. The event became very popular and it is planned to organise it also in 2023. In March, we participated in the Engineering Career Day organised by TTKK and in April in the Logistics Seminar, where the participants had the opportunity to get to know the companies in the student boxes. In April, we participated in the virtual Job and Career Fair organised by the Unemployment Insurance Fund, where we introduced our ongoing recruitment competitions. In July, we contributed to the Goldberg 2022 competition organised by TalTech students. The idea of the contest was to build a Rube Goldberg machine that would perform one simple task as a chain reaction sequence as complex as possible. Estonian Railways also added a railway element to the series.

Estonian Railways has taken a conscious direction to contribute to the development of young professionals of the future and in May 2022 awarded two scholarships to undergraduate students of energy and mechatronics at TalTech, and in December awarded scholarships to two other undergraduate students. In

addition, we are committed to shaping the reputation of Estonian Railways as an employer among upper secondary school students by explaining why it is worthwhile to study a speciality in the railway sector. We are an open company and young people are welcome for visits, job shadow days, internship programs. In 2022, twenty young people completed internships in Estonian Railways and 6 students from TalTech used job shadowing. The internships of some trainees lasted almost 500 hours, which means that we had an internship with us for half a year. Our internship supervisors are professionals in their field. We recognize their responsible work and highlight it among other employees. We also participated in the competitions Best Traineeship and Best Trainee organised by the Employers' Confederation.

We support recruitment through our employees and pay a recruitment bonus to employees for each employee who is referred and recruited.



Involvement and recognition

Corporate values are an integral part of organizational culture, guiding the behavior of our employees in making choices in problematic situations. Once a year, development interviews are held with the employees, during which the employees evaluate themselves through the company's values and through which the managers give feedback to the employees.

In order to keep our employees in a common field of information, we regularly organise information days. In the autumn of 2022, we conducted such information days in Tallinn, Tartu and Narva. It was also possible



to watch the information days live on YouTube and afterwards on our Company's intranet.

We recognise and reward employees whose activities are in line with the Company's values. In 2022, we awarded the titles with a cash prize in nine categories: Trainer of the Year, Honesty Carrier of the Year, Professional of the Year, Leader of the Year, Idea of the Year, Newcomer of the Year, Risk Manager of the Year, Trainer of the Year and Team of the Year.

In the spring of 2022, we organised our company's Job Shadow Week, during which our employees could act as job shadows for representatives of various professions.

In the summer, we organised a joint event for the Company's employees at Roosta and also for the 2021 seniority badge event that had to be postponed due to COVID-19 pandemic, the 2022 year event was held in November as planned.

The Company has a virtual idea bank, the aim of which is to collect innovative ideas from employees that will improve the work processes and environment of Estonian Railways or otherwise support the Company's operations. In 2022, employees submitted 24 ideas via our idea bank. The best idea was the creation of a digital library to broaden the horizons of employees. There was also a competition for energy saving ideas, where our employees submitted 7 ideas.

We remember our employees at anniversaries, work anniversaries, family events, the departure of senior employees. It is also important for us to remember our colleagues who are already retired. For example, the Company helped the Estonian Railway Workers' Union, the aim of which is to value the history of rail transport in Estonia and to unite railway workers. They have a tradition of remembering former railway workers on their anniversaries. That is why Estonian Railways prepared diplomas and small souvenir gifts.



Remuneration and rewards

In terms of remuneration, we proceed from the goal of retaining good specialists at Estonian Railways, pay them a competitive salary and offer 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 salary, the employees of Estonian Railways are entitled to receive, for example:

- performance pay based on performance, fulfilment of targets, attitude to work, responsiveness, loyalty, initiative, cooperation, etc;
- three paid health days per calendar year;
- paid additional days of rest due to length of employment service as well as in case work is subject to special conditions;
- paid additional days of rest due to length of employment service as well as in case work is subject to special conditions;
- insurance against occupational accidents;
- sports compensation of EUR 90 per quarter – 364 employees used it in 2022;
- pension allowance of 10-50% of salary, depending on length of employment, upon retirement;
- compensation for termination of employment due to health reasons, depending on the length of employment in the amount of 1-2 months' salary;
- allowances for joyful events (jubilee, professional jubilee, Christmas, Mother's Day, wedding, birth of a child, and **employees children who are starting school**, but also for difficult moments, such as the loss of a loved one;
- joint events;
- for the time of participating in training meetings of reservists, we maintain the basic salary of the employee according to the employment contract.

Relations with the trade union

Estonian Railway Workers' Union is a partner for Estonian Railways in negotiations related to employees' working conditions, remuneration, occupational health, workload, termination of the employment contract and other conditions related to the work of the Company's employees. The Company has good and constructive relations with the trade union and holds regular meetings with trade union representatives. The goal is always to find a mutually satisfactory solution to the employees' wishes and problems.

36% of the employees of Estonian Railways are members of the trade union (2021: 38%). The collective agreement of the Railway Workers' Union covered all employees of the Company, as in 2021. At the end of 2022, negotiations for a new collective agreement were concluded and signed in January 2023.



Occupational health and safety

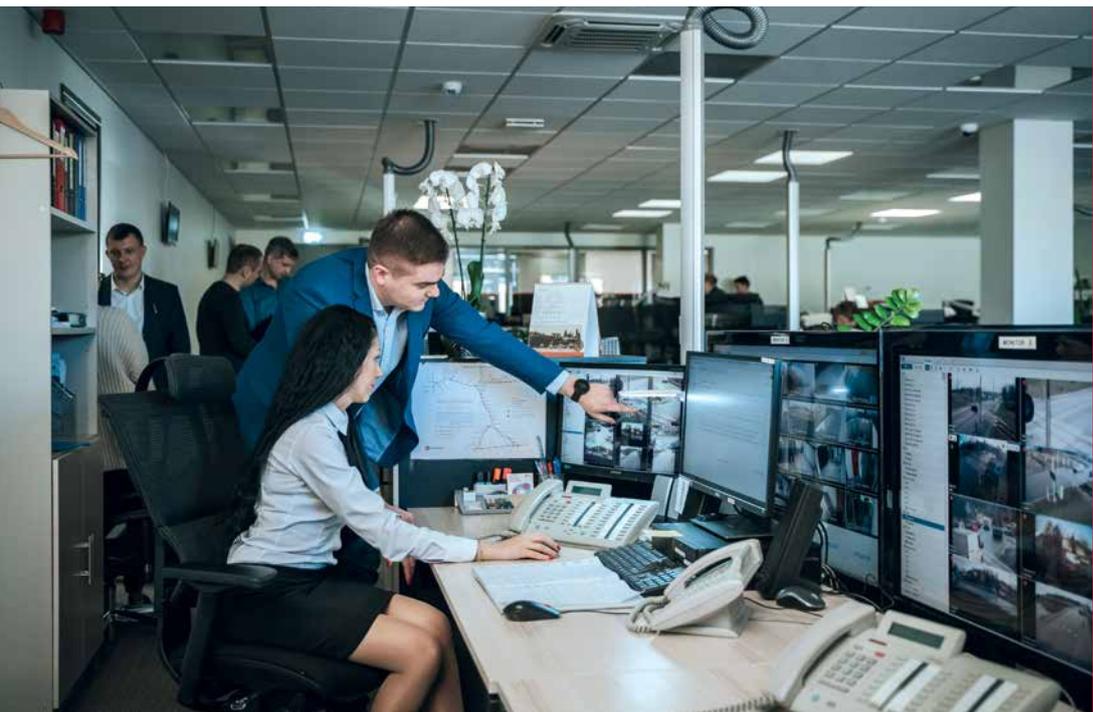
The specifics of our work are accompanied by a higher-than-normal risk to the safety and health of employees. In occupational safety, we adhere to the Occupational Health and Safety Act, the relevant regulations, the ISO 45001:2018 standard and the results of risk assessments. We manage the guiding principles of safety, occupational safety, quality and the environment as a single system that covers all job positions of Estonian Railways. According to the risk analysis, the main risk factors for Estonian Railways are railway traffic, exposure to electrical work and night work. Employees have the right to refuse unsafe activities by notifying their supervisor, who is responsible for finding a solution to the problem.

In the development of the safety system, employees can have a say and inform about hazards primarily through working environment councillors, members of the working environment council and personal direct communication.

We started the digitalisation of occupational safety training and instruction, which will allow better control of the process in the future and leave trainers more time for other activities.

In 2022, one occupational accident (2021: 0) occurred with the employees of Estonian Railways when an employee of the southern road department sprained his leg during shunting and was therefore incapacitated for work for 25 days. As compared to the longer period, it can be seen that between 2010 and 2022, the number of occupational accidents has remained between 0 and 5. In the case of accidents at work, we analyse the causes in order to prevent a similar accident from happening again. For the same purpose we discuss all the near-accidents with all of our employees.





Training and development

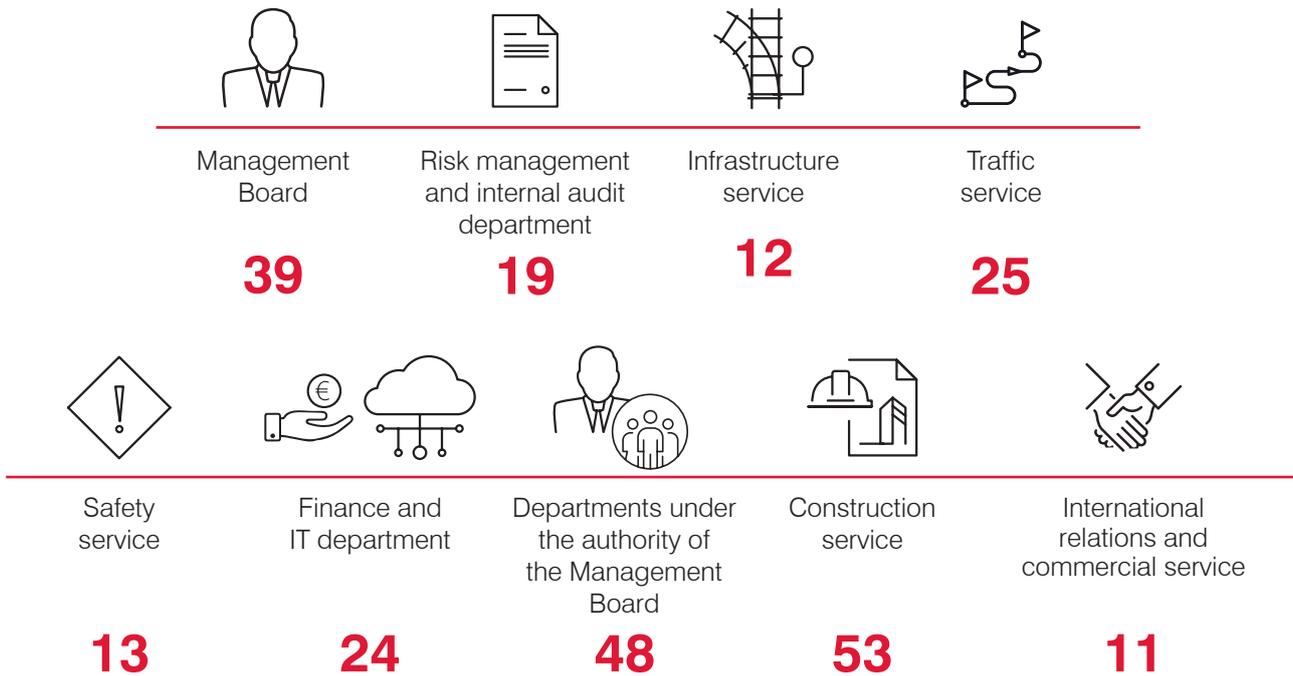
The strategic objectives of the development and training of the personnel of Estonian Railways are the acquisition of management quality, digital skills and language level necessary for the work, as well as the maintenance and transfer of the knowledge of the organisation and the development of cooperation within the organisation and with external partners (including vocational and higher education institutions).

The Company maintains a strong focus on internal training. There is only one educational institution providing formal education in the field of railways (TTK UAS) in Estonia, but it is important that the knowledge in the Company is preserved and passed on. Since Estonian Railways employs many professional employees with long experience who are about to retire, they share their practical knowledge with the younger generation. In our Company, 36 internal trainers passed on their knowledge in 2022.

Number of training courses attended

Structural unit	2022	2021
Management Board	23	23
Risk management and internal audit department	7	8
Infrastructure service	482	828
Traffic service	1,495	841
Safety service	54	55
Financial service and IT	232	184
Departments under the authority of the Management Board	111	246
Construction service	144	111
International relations and commercial service	35	-

Average number of training hours per employee per structural unit



The most important activities of 2022 in the training of employees

- In-house Estonian language courses continued, which were attended by 75 employees. We also supported employees' studies in the eLearning environment Speakly, where 35 employees studied;
- Nearly 500 employees completed e-learning on cyber security;
- We started with a project of language cafés, where our staffed language mentors conducted Estonian language conversation courses with colleagues who wanted to practice Estonian;
- Development conversation and feedback training for managers;
- Railway automation and telematics training for project managers;
- Conformity assessment training for project managers and managers;
- DISC personality profile assessments and training for employees;
- Anti-corruption training for staff.





Internal training is partly directed to the e-learning environment. The Confluence website offers 31 courses in which employees can learn independently.

In order to motivate employees to improve their Estonian language skills and take language level examinations, we reward employees who have passed the B2 or C1 level examinations for a positive result. In 2022, two B2-level graduates and two C1-level graduates were financially rewarded. At the end of the year, the Management Board of the Company adopted a decision to reward those who have reached the level of B1 Estonian.

Diversity, equal treatment, non-discrimination

The selection of staff, staff appraisal, staff development opportunities, staff promotion, remuneration and redundancy status shall not take into account the age, gender, nationality, mother tongue, religious, political or social convictions of the staff member or membership of legal associations.

We want our culture to be free from discrimination, harassment, and humiliation. When recruiting employees, the main selection criteria are the candidate's work experience, knowledge, skills, desire to develop and work at Estonian Railways, and suitability for the future workforce and organisational culture.

The employees of Estonian Railways include people of various backgrounds, nationalities and cultures. Regardless of the employee's origin, we respect the equal rights, obligations and opportunities of all employees in terms of employment, education and participation in social activities.

Important Company information materials are available in both Estonian and Russian. All employees of Estonian Railways are always welcome to attend joint events.

No cases of discrimination were identified in 2022.

During the reporting year, one labour dispute application was pending, in which the employee submitted a resignation application to the employer on his or her own request, but later demanded the revocation of the application for cancellation and the establishment of the validity of the employment relationship. By the decision of the labour dispute committee, the claims of the employee were not satisfied, but the decision had not yet entered into force at the end of 2022.



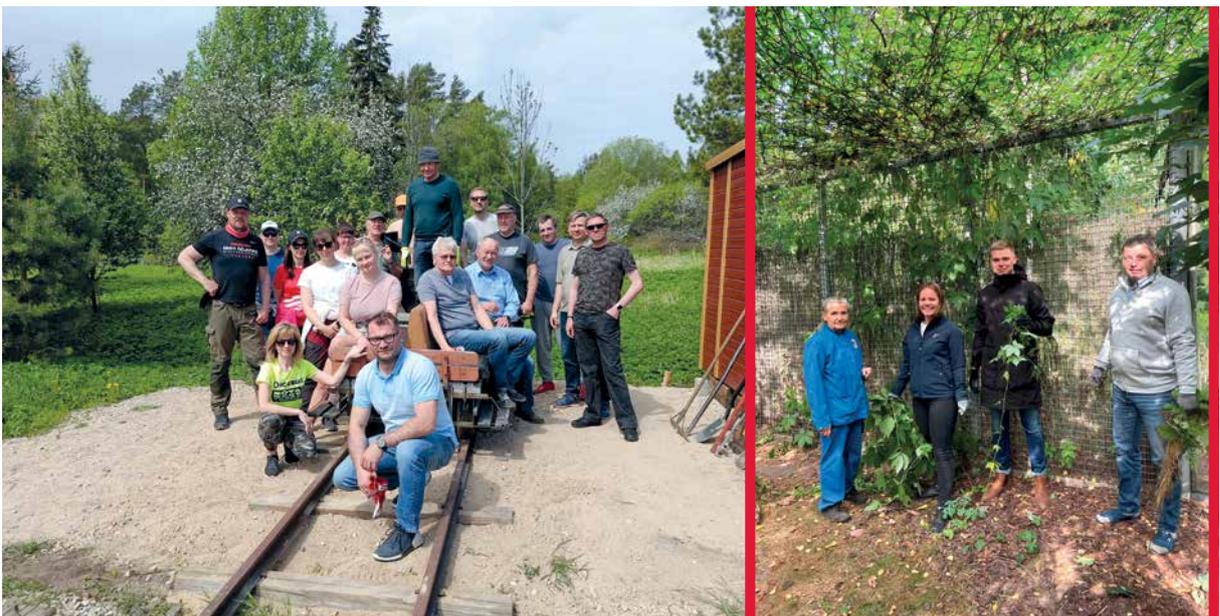




SOCIAL CONTRIBUTION

Involvement of young people

In cooperation with young people from Kristiine city district, we contributed to the dissemination of railway safety messages in June 2022. The safety messages "Please get off your bike!" and "Thank you!" were put up at the crossings of Järve and Tondi railways and at the entrances of Lilleküla passenger underpass by Estonian Railways, Kristiine city district government, local police and members of the Kristiine youth centre. The aim of the campaign was to remind road users that when crossing a railway crossing, they have to get off a bike or scooter and cross the railway as a pedestrian in order to ensure safety.



Support activities and cooperation projects

In the context of what is happening in Ukraine, our Company's wish has been to help our colleagues there and the Ukrainians who have fled to Estonia. We have been in contact with the Ukrainian Railways since the beginning of the war, and in spring 2022 we sent an aid shipment to the Ukrainian Railways, which included cars and spare parts specially designed for rail maintenance and repair. We also shared computers written off with the children of Ukrainian refugees who came to Estonia to continue their school work, and we gave the refugees an introduction of the Company's jobs on Tallink ferry Isabelle.

In the spring of 2022, the Supervisory Board of Estonian Railways supported the restoration of the Estonian Museum Railway in Lavassaare and the development of outdoor exhibits with EUR 15,000.

With the membership fee, we will also supported the activities of the railway safety NGO OLE with EUR 120,000 in 2022.

In 2022, we supported the activities of the Estonian Railway Workers' Union with EUR 12,660.

We also contributed to cooperation projects with our know-how, infrastructure and staff time.

- In the autumn brand ambassadors of Estonian Railways as the employer visited the Tallinn Zoo to help with the maintenance work. We helped to clean the enclosure of Amur leopards;
- We helped the Estonian Railway Workers' Union to organize events in buildings that we own;
- Our infrastructure was filmed and photographed in 2022 for eight projects, and we allowed the filmmakers to do it for free, as long as they complied with our terms and conditions and safety requirements;
- Employees of the Construction service of Estonian Railways visited the Museum Railway in Lavassaare to help with maintenance work and changed tracks for the Steam Days;
- We were a partner in Vasalemma Offroad Rally held in June, where the track also partially crossed the service roads of the infrastructure of Estonian Railways;
- For several years now, we have been a good partner for sports enthusiasts. Namely, Tallinn Marathon route also runs through our infrastructure.



Our infrastructure is also used by artists:



- In cooperation with the leader of Lasnaidee NGO and Mondo NGO, NGO Rural Urban Art and Peace Action Community, we carried out a street art project in the Ülemiste railway tunnel;
- In cooperation with the Government of the City Centre District and the Government of the Kristiine District, the Tallinn Education Department and OLE, we decorated the Lilleküla tunnel with various art designs and railway safety messages;
- In cooperation with Tapa School of Music and Art, the Tamsalu pedestrian underpass was decorated, which was also nominated at the Lääne-Viru County "Deed of the Year 2022" competition;
- In Tallinn, next to Balti station, we gave the NGO Okapi, whose exhibition On the Edge Fest highlighted documentary photography of the war in Ukraine, to use the Reisijate street fence belonging to Estonian Railways for the art street project;
- In the framework of a cooperation project, an exhibition "Life is in the countryside" was prepared for the NGO Meie Kiltsi and NGO Vao Küla in Kiltsi station building;
- On the Estonian Railways' infrastructure between Tallinn and Narva, the final event of artist Henri Hütt's choreography residency "From Stop to Stop or Trip to the Unknown" was performed.

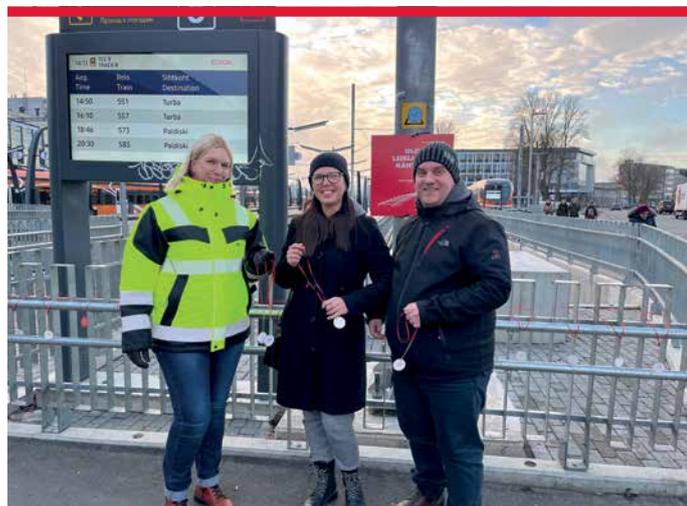


Volunteering of employees

Estonian Railways promotes the employees' contribution to charity and public information activities and enables them to do so from working time. Estonian Railways' employees mainly talk about railway safety in schools and kindergartens, both within the framework of the "Back to School" initiative and on their own initiative. For example, in the spring, the Company's communications manager went to the 9th grades of Järveküla School to talk about the Company, the railway sector in general and railway safety. The Company's headquarters were also visited by the Digiruum Hobby School children's camp.

Our employees also go to schools and kindergartens separately to talk to children about railway safety, which is how more than 650 children were trained in 2022.

Employees of Estonian Railways participate in safety-related activities of their own free will. For example, when it got dark, our employees handed out reflectors to those who wanted them at the Balti station. In 2022, three new railway safety ambassadors of Estonian Railways underwent training.



AS EESTI RAUDTEE ANNUAL FINANCIAL STATEMENTS 2022

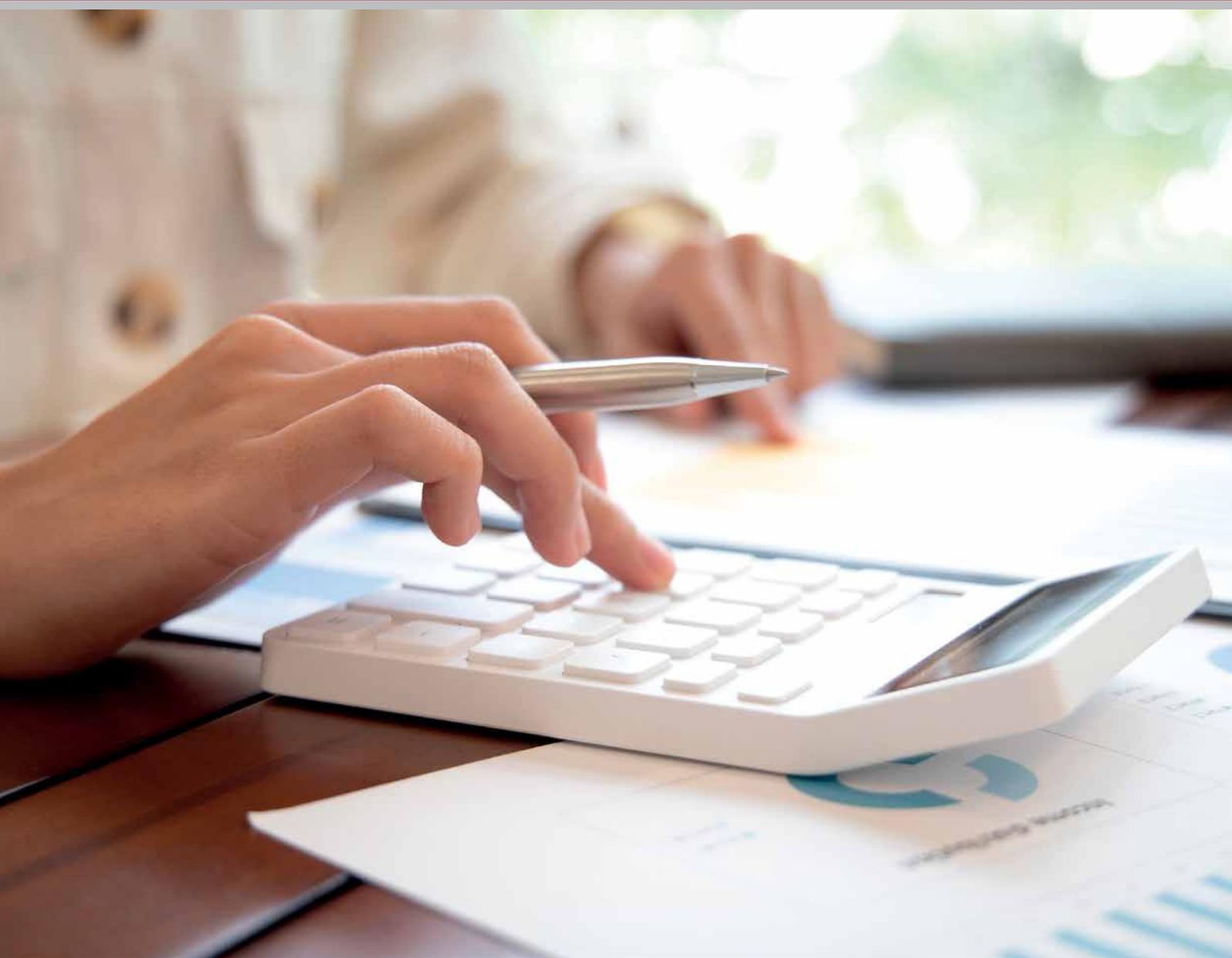


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MANAGEMENT REPORT

Business Activities

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

The development opportunities of freight transport in the region until 2022 were limited by Russia's export-oriented development strategy, which strictly favored domestic harbours (e.g. Ust-Luga) for the transport of export goods. However, on February 24 2022, the aggression of the Russian Federation in the Republic of Ukraine began. On April 28 2022, the Minister of Economic Affairs and Infrastructure confirmed the owner's expectations for the joint-stock company Eesti Raudtee. In the document, the company was instructed to evaluate the ethicality of business relations with Russian and Belarusian entrepreneurs and to abandon such business relations that are not unavoidably necessary to ensure cross-border rail traffic and the operation of public railways and to fulfill the obligations prescribed by law and international agreements. For this reason, AS Eesti Raudtee decided to close the representative office in the Russian Federation, Moscow, whose liquidation procedure was fully completed in December 2022. Under the authority of the Minister of Economic Affairs and Infrastructure, the company continues to perform the function of railway administration as part of the railway network with a gauge of 1520 mm in cross-border cooperation with the Baltic countries and third countries.

In order to implement the common foreign and security policy, the European Union agreed on several sanctions packages for Russian and Belarusian goods, banks, companies and private individuals. AS Russia Railways, which performs the functions of the railway administration of the Russian Federation, has also been included in the sanctions list. Investment services for Russian Railways are prohibited. Eesti Raudtee does not provide the mentioned services. In order to implement restrictive measures, the company developed a procedure for the implementation of international sanctions and formed an international sanctions committee as an internal working body of the company. It deals with solving issues related to the application of international sanctions, supervises the implementation of international sanctions, assesses risks related to the implementation of international sanctions in the company and approves the list of persons from the Republic of Belarus and the Russian Federation with whom the company has regular settlements.

In 2022, compliance with the sanctions resulted to a decrease in transport volumes in all Baltic countries, which in the case of Estonia means the transformation of the railway infrastructure from a freight railway mainly oriented towards mass transport to a European passenger railway. The Transport and Mobility Development Plan 2021-2035 sets the goal of increasing the share of rail freight turnover (in net ton kilometers) in Estonia's freight turnover by 2035 compared to road transport to 40%, when the level in 2020 was 28%. Regarding international transit trade, the development plan states that cooperation must be promoted, which allows bringing Asian goods to the Northern European market by rail, but currently the limiting factor is the transport routes through Russia and Belarus.

The number of train passangers in Estonia has increased every year, reaching 8.3 million passangers in 2019, of which approx. 85% on the Estonian Railways infrastructure. In 2020–2021, the number of passangers decreased due to the restrictions of COVID-19, which the operational results of Estonian Railways did not directly depend on. From 2022, the number of passangers can be expected again growth. In the transport and mobility development plan for the years 2021-2035, the goal is to reach 20 million railway passangers in 2035. To this end, it is desired to increase the speeds of the 1520 mm gauge railway in order to reduce the time-space distances between the major traction centers in Estonia, in order to ensure a faster connection time compared to commercial bus traffic. Ensuring a fast and convenient

railway connection between Tartu-Valga and potentially launching a Tartu-Riga train connection have been mentioned as a priority development direction.

Operating Income

In 2022, the revenue of AS Eesti Raudtee totalled EUR 29.39 million (2021: EUR 32.79 million). Infrastructure services accounted for 80% of revenue (2021: 86.60%). 45.2% of user fees were received from freight companies (2021: 54.3%). In a year, the railway infrastructure user fees from freight companies decreased by 31.8% and that from passenger transport companies by 0.6%.

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

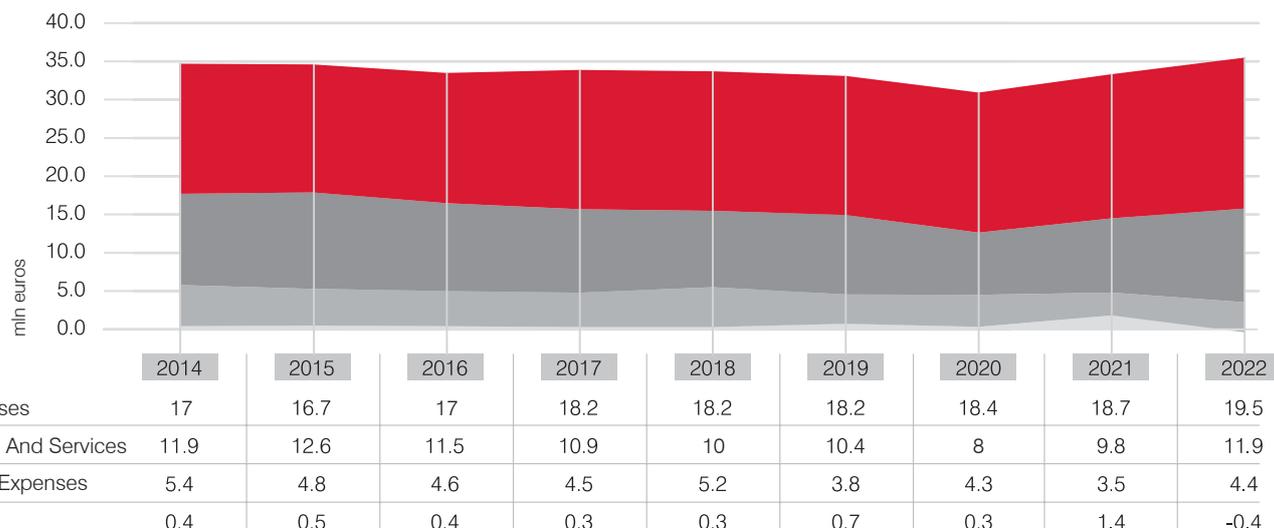
Government grants to achieve performance targets made up 69.9% of the infrastructure company's other income (EUR 29.64 million). At the end of 2015, the Company concluded a long-term financing agreement with the Republic of Estonia for allocation of public funds to ensure the Company's long-term sustainability of operations and the quality of the railway infrastructure. The agreement ensures that under normal business conditions the Company's revenue consisting of infrastructure user fees, profit generated by other commercial activities and funds allocated by the state or other persons), and railway infrastructure expenditure would be balanced over a five-year period. As at 31 December 2022 the railway revenue and infrastructure expenditure were balanced during the period 2015-2021. From 2023, the funds necessary to ensure the balance of expenses and revenues of the Estonian Railways will be included in both the state budget and the state budget strategy.

The said financing agreement is also an instrument for mitigating the liquidity risk of the Estonian Railways in the event of an interruption of rail freight transport or a trade embargo, considering the fact that a significant part of the sales revenue in 2022 consisted of the infrastructure usage fees received from the transport companies serving the transit of Russia and Belarus.

Operating Expenses

In 2022, the operating expenses of Estonian Railways totalled EUR 58.75 million (2021: EUR 55.55 million), increasing by approximately 5.8% in a year. The cost of goods, materials and services used increased by approximately 21.2% as compared to 2021 due to higher energy prices and infrastructure maintenance costs. Other operating expenses increased by 24.7% and personnel expenses by 4.1%. However, the relative growth of business expenses was significantly lower than the rest of the Estonian consumer price index (19.4%), and business expenses in 2022 did not significantly exceed the level of 2014.

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



Results for the Year

Estonian Railways earnings before interest, taxes, depreciation, and amortization (EBITDA) for 2022 was EUR 23.58 million, which was EUR 1.2 million more than in 2021. Considering the logic of the revenue formation of Estonian Railways as a railway infrastructure company, its EBITDA is equal to the amount of depreciation and net financial expenses, which increased by 5.5% and 5.6% respectively compared to 2021. The company does not make a net profit with such accounting methods.

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. Considering the continuing decrease in the volume of freight transport, the principle of determining the railway infrastructure usage fee to taking into account the ability of different market segments to pay this fee and the need for large investments, the sole shareholder expects that AS Eesti Raudtee will not make a profit in the coming years. 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 2022, the Company's assets totalled EUR 417.38 million (2021: EUR 374.42 million), of which property, plant and equipment accounted for EUR 346.28 million or 83.0%. The financial ratios were in compliance with the requirements set by the keys creditors (see Annual Financial Statements Note 2.6).

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

Investments

The strategic task of Estonian Railways as an infrastructure manager is, as set in the owner's expectations, to reduce the technological backlog and to introduce modern solutions in traffic management and infrastructure management. To achieve this, approximately EUR 840 million will be invested in 2021–2028 to renew the railway in accordance with the Transport and Mobility Development Plan 2021–2035 approved in November 2021. The largest investment projects are the electrification of the railway (approx. EUR

274 million in the strategy period), the renovation and straightening of the railway necessary to increase speeds (approx. EUR 165 million), the first stage of modernization of cross-infrastructure safety systems with automatization (approx. EUR 160 million), etc. All investment projects also include a component of improving railway safety.

Major Projects in 2022

- Aegviidu-Tapa railway section major repairs and preparations for increasing of speeds to 160 km/h on sections Tallinn-Tartu and Tapa-Narva EUR 16.5 million
- Lääne-Harju project EUR 15.6 million, incl:
 - Construction of tracks and track facilities and major repairs EUR 10.4 million
 - Renewal of security systems EUR 5.2 million
- Cross-infrastructure renewal of security systems and automation of traffic management EUR 5.8 million
- Renovation of crossings EUR 3.6 million
- Railway lifting maintenance and mass replacement of sleepers EUR 2.6 million
- Reconstruction of the platform between the roads of Tartu station and repair of the tunnel EUR 1.4 million
- Renewal of trunk line EUR 1.1 million
- Reconstruction of the Tapa–Narva railway and increase of speeds to 135 km/h EUR 1.0 million
- Construction of the Jõhvi-Oru light traffic tunnel EUR 0.9 million
- Preparations for railway electrification EUR 0.9 million

Responsible Activity

The Company has prepared a report in accordance with the Global Reporting Initiative (GRI) sustainability reporting standard, which covers the Company's operations and key performance indicators in the areas of risk management, human resource management, human rights and anti-corruption, as well as the environmental impact of the Company's operations. The said report shows that in 2022 there were no cases of corruption involving the Company or its suppliers. There were also no cases of discrimination in the Company, as the Company's organizational culture is free from unequal treatment, harassment and humiliation. The direct and indirect environmental impact of the company decreased significantly in 2022, as the use and distribution of electricity from renewable sources was switched to at the beginning of the year. The impact of Eesti Raudtee's activities on the environment is moderate considering the size of the company, e.g. the company uses electricity from renewable sources and its consumption decreased by 13% in 2022 compared to 2021.

ANNUAL FINANCIAL STATEMENTS

Statement of Financial Position

In thousands of euros

	Note	31.12.2022	31.12.2021
ASSETS			
Non-current assets			
Property, plant and equipment	3	337 149	304 275
Intangible assets	4	3 689	2 706
Prepayments for property, plant and equipment tangible assets		5 258	5 258
Long-term receivables		184	9
Total non-current assets		346 280	312 248
Current assets			
Inventories	5	7 349	6 543
Receivables and prepayments	6	31 698	19 100
Cash and cash equivalents		32 053	36 526
Total current assets		71 100	62 169
TOTAL ASSETS		417 380	374 417
EQUITY AND LIABILITIES			
Equity			
Share capital		80 303	80 303
Statutory reserve capital		4 473	4 473
Retained earnings		91 341	91 341
Total equity	7	176 117	176 117
Non-current liabilities			
Loan liabilities and borrowings	8	45 754	31 423
Government grants	17	171 756	147 709
Other non-current liabilities		383	511
Provisions		237	244
Total non-current assets		218 130	179 887
Current liabilities			
Loan liabilities and borrowings	8	3 402	3 415
Payables and prepayments	9	19 627	14 009
Government grant prepayments	17	88	113
Provisions		16	876
Total current liabilities		23 133	18 413
Total liabilities		241 263	198 300
TOTAL EQUITY AND LIABILITIES		417 380	374 417

Notes to the financial statements on pages 88-116 are an integral part of the financial statements.

Statement of comprehensive income

<i>In thousands of euros</i>	Note	2022	2021
OPERATING INCOME			
Revenue		29 392	32 785
Other operating income		29 637	23 027
TOTAL OPERATING INCOME	11	59 029	55 812
OPERATING EXPENSE			
Goods, materials and services	12.1	11 940	9 847
Other operating expense	12.2	4 375	3 510
Personnel expense	12.3	19 506	18 732
Depreciation and impairment	3.4	23 304	22 095
Other operating expense		-376	1 363
TOTAL OPERATING EXPENSE		58 749	55 547
OPERATING PROFIT/LOSS		280	265
Financial income and expense	13	-280	-265
PROFIT BEFORE INCOME TAX		0	0
PROFIT FOR THE YEAR		0	0
COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		0	0

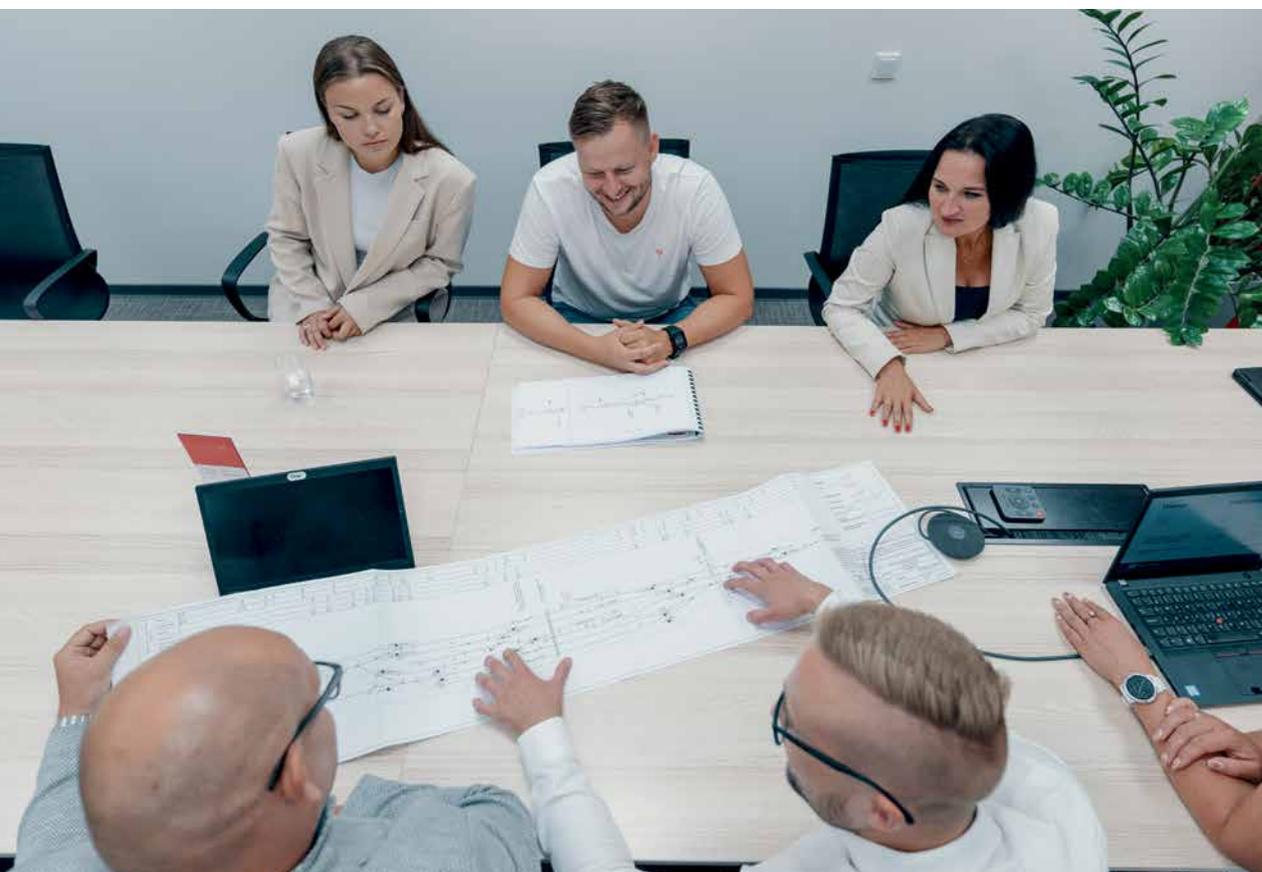
Notes to the financial statements on pages 88-116 are an integral part of the financial statements.

Statement of changes in equity

<i>In thousands of euros</i>	Share capital	Statutory reserve capital	Retained earnings	TOTAL
BALANCE AS AT 31.12.2020	80 303	4 119	91 695	176 117
Mandatory reserve capital	0	354	-354	0
Total comprehensive profit for 2021	0	0	0	0
BALANCE AS AT 31.12.2021	80 303	4 473	91 341	176 117
Mandatory reserve capital	0	0	0	0
Total comprehensive profit for 2022	0	0	0	0
BALANCE AS AT 31.12.2022	80 303	4 473	91 341	176 117

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

Notes to the financial statements on pages 88-116 are an integral part of the financial statements.



Statement of cash flows*In thousands of euros*

	Note	2022	2021
CASH FLOW FROM OPERATING ACTIVITIES			
Operating profit		0	0
Depreciation and impairment of property, plant and equipment	3,4	23 304	22 095
Depreciation of property, plant and equipment of the government grant	17	-7 938	-7 082
Profit/loss from the sale and liquidation of property, plant and equipment	3	-58	-871
Adjustment/revaluation of provisions		-859	1 014
Right of superficies fee		-128	-128
State budget operating support		-20 716	0
Loss from financial income/expense	13	280	265
Other adjustments		-179	-7
Change in receivables and prepayments	6	-1 401	-241
Change in inventories	5	-806	-842
Change in payables and prepayments	9	294	2 211
Grants received for operating expenses	17	26 592	-14 550
Interest income received	13	58	32
Interest paid	13	-317	-334
TOTAL CASH FLOW FROM OPERATING ACTIVITIES		18 126	1 562
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	-47 936	-29 799
Inventories used in the construction of fixed assets	3	-1 110	-1 703
Proceeds from sale of property, plant and equipment	3	60	891
Government grants for property, plant and equipment received from the state budget	17	1 986	3 293
Government grants received for property, plant and equipment	17	12 920	9 860
Cash received from deposit		0	8 500
Repayment of loans granted		1	1
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		-34 079	-8 957
CASH FLOW FROM FINANCING ACTIVITIES			
Loans received	8	15 000	10 000
Repayments of loans received	8	-2 030	-1 007
Finance lease payments	8	-1 490	-1 539
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		11 480	7 454
TOTAL CASH FLOW		-4 473	59
Cash and cash equivalents at the beginning of the financial year		36 526	36 467
Cash and cash equivalents at the end of the financial year		32 053	36 526
CHANGE IN CASH AND CASH EQUIVALENTS		-4 473	59

Notes to the financial statements on pages 88-116 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 2022 for issue on 16 March 2023.

Note 1 Accounting Policies

1.1 Basis of preparation and measurement and changes in them

The Entity's financial statements for 2022 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.

Changes in the accounting policies

The following new or revised standards and interpretations became effective for the Company from 1 January 2022:

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 2021.

„Covid-19-Related Rent Concessions – Amendments to IFRS 16“ - In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022. The company estimates that there will be no significant impact on the financial statements.

New or revised standards and interpretations effective from 1 January 2023

New or revised standards and interpretations have been issued that become mandatory for the Company from 1 January 2023 or later and that the Company has not early adopted:

- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023).

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements.

- Amendments to IAS 8: Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023).

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

- Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2024).

These 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. 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.

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.

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 2022. financial information.

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

The estimated useful lives of property, plant and equipment are based on management's estimate of the period of actual use. Experience so far has shown that the actual useful lives of assets are generally longer than the estimated useful lives of the assets.

In 2021 the useful lives of items of property, plant and equipment for which plans for their conversion and reconstruction are known have been revised. There were no revisions of property, plant and equipment in 2022.

The weighted average depreciation of fixed assets is 3,9% of the acquisition cost of fixed assets. A change of one percentage point in depreciation rates would change the depreciation charge by 5.9 million per year.

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

As at 31 December 2022, the Company prepared a test on the recoverable amount of property, plant and equipment determining the value in use of the assets using the discounted future cash flow method.

Using the weighted average cost of capital accepted by The Consumer Protection and Technical Regulatory Authority as a discount rate of 4,710% (2021: 3,602%), and a long-term growth rate projected by the

European Central Bank 2.2% (2021: 1.9%), the recoverable amount of fixed assets exceeds their carrying amount.

1.3 Foreign currency transactions

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

Due to the lack of an official exchange rate for the Russian ruble, the exchange rate of the Central Bank of Russia has been used when reporting ruble transactions.

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.

Buildings	
Buildings	10 - 100 years
Facilities	5 - 100 years
Railways	20 - 50 years
Machines and equipments	2 - 30 years
Other	3 - 15 years

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

1.5 Intangible assets

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

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

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

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

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

Software is amortised over 5 years.

1.6 Inventories

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

1.7 Financial instruments

Financial assets

Classification

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

Recognition and derecognition

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

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

Measurement

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

Debt instruments

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

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

Equity instruments

The Company has no investments in equity instruments.

Impairment

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

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

The Company measures impairment as follows:

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

Financial liabilities

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

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

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

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

1.8 Impairment of assets

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

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

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

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

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

1.9 Revenue recognition

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

Infrastructure fees

Eesti Raudtee ensures that earnings before interest, taxes, depreciation, and amortization 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 infrastructure fees established in accordance with the methodology of the Minister of Economic Affairs and Infrastructure are determined by the Director General of the Consumer Protection and the Technical Regulatory Authority for the entire timetabling period. Fee rates are published on the websites of Consumer Protection and the Technical Regulatory Authority and Estonian Railways. 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 bonus payments only when it has a present legal or constructive obligation to make such payments and a reliable estimate of the obligation can be made.

1.11 Income tax

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

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

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

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

1.12 Leases

The company as a lessor

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

The company as a lessee

Leases are classified in accordance with IFRS 16.

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

Initial measurement

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

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

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

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

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

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

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

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

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

Subsequent measurement

After the commencement date, a lessee measures the right-of-use asset applying a cost model. To apply a cost model, a lessee measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straightline 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.

In connection to the change in the taxation price of land which is coming into force from January 1 2024, the reflection of development rights in financial reporting will be reviewed in 2023. The change has no material impact on financial year 2022.

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 risks

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 2021 and 31 December 2022 the company didn't have significant currency risks, since liabilities were mainly in euros.

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

<i>In thousands of euros</i>	31.12.2022		31.12.2021	
	CHF	RUB	CHF	RUB
Cash and cash equivalents	693	0	498	8
Receivables	209	0	247	0
Payables	-310	-9	-226	-1
Net exposure	592	-9	519	7

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 from EIB has a fixed interest rate to protect itself from changes of EURIBOR. Swedbank's loan is linked to EURIBOR, and due to the continued rise of EURIBOR, the company's interest costs will increase as much as three times in the following periods. The interest rates are given in Appendix 8.

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 2022.

<i>In thousands of euros</i>	31.12.2022	31.12.2021
Discount balance at the beginning of the reporting period	87	628
Discounts for the reporting period	0	81
Receivables received during the reporting period	-6	-252
Receivables written off during the reporting period	0	-370
Discount at the end of the period	81	87

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 2021 and 31 December 2022.

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.

In thousands of euros

Bank accounts and deposits	31.12.2022	31.12.2021	Reiting Moody's järgi
Swedbank	21 962	29 125	Aa3
SEB Bank	77	1 037	Aa2
Luminor Estonia	10 014	6 356	Baa1
Bank account of the Company's office in Moscow	0	8	unknown
	32 053	36 526	

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 a single bank may not exceed 50% of all financial resources of the company at the time of placing the deposit. The Company diversifies its funds between different banks based on the current account balance fee applied by the bank.

The table below provides an analysis of financial liabilities by maturity, including estimated future interest payments as of 31.12.2022 and 31.12.2021.

31.12.2022

<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	41 963	44 850	2 840	3 011	17 208	21 791	8
Lease payables	7 194	8 020	1 617	1 271	3 303	1 829	8
Trade payables	13 746	13 746	13 746	0	0	0	9
Other payables	195	195	195	0	0	0	
Total	63 098	66 811	18 398	4 282	20 511	23 620	

31.12.2021

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

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. In loan agreements, the company has committed to ensure that share of equity capital should be at least 35% of the balance sheet volume. As of 31 December 2022, the share of equity in the balance sheet was 42.2% (31.12.2021: 47.0%). For more information on equity refer to Note 7.

In loan agreements, the company has also undertaken obligations not to exceed the agreed ratio of interest-bearing liabilities and net debt to EBITDA.

<i>In thousands of euros</i>	31.12.2022	31.12.2021
Debt liabilities (Note 8)	49 156	34 837
Cash and cash equivalents (Notes 2.3 and 8)	32 053	36 526
Net debt (debt liabilities-cash and cash equivalents) (Note 8)	17 103	-1 689
Equity	176 117	176 117
Total capital (net debt + equity)	193 220	174 428
Debt to equity ratio	25%	20%
Ratio of net debt to total equity	9%	-1%

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 31.12.2022 and 31.12.2021.

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 build- ings	Rightof- use buildings	Machinery and equipment	Rightof- use vehicles	Other equip- ment	Con- struc- tion in pro- gress	Total	Note
31.12.2020							0	
Cost	454 066	4 307	82 464	1 515	1 189	10 498	554 039	
<i>Incl. EU and Domestic government grants</i>	159 340	0	11 724	0	0	0	171 064	
Accumulated depreciation	-209 592	-983	-48 516	-792	-979	0	-260 862	
<i>Incl. EU and Domestic government grants</i>	-39 453	0	-1 550	0	0	0	-41 003	
Carrying amount 31.12.2020	244 474	3 324	33 948	723	210	10 498	293 177	
Movements in 2021							0	
Acquisitions and improvements	164	0	1 704	0	28	29 138	31 034	
<i>Incl. leased assets</i>	0	0	894	0	0	0	894	
Addition of right-to-use assets	0	216	0	0	0	0	216	
Reclassification	20 559	0	3 572	0	0	-24 167	-36	
<i>Incl. EU and Domestic government grants</i>	13 828	0	2 110	0	0	-15 938	0	
Reclassifications from inventories	0	0	0	0	0	1 625	1 625	
Carrying amount of assets sold and written off	-13	0	-3	0	0	0	-16	
Depreciation charge/impairment of fixed assets	-16 214	-517	-4 484	-402	-58	-49	-21 724	
<i>Incl. EU and Domestic government grants</i>	-6 439	0	-643	0	0	0	-7 082	17
31.12.2021							0	
Cost	471 607	4 523	86 409	1515	1 150	17 045	582 249	
<i>Incl. EU and Domestic government grants</i>	173 168	0	13 834	0	0	0	187 002	
Accumulated depreciation	-222 637	-1 500	-51 672	-1 194	-970	0	-277 973	
<i>Incl. EU and Domestic government grants</i>	-45 892	0	-2 193	0	0	0	-48 085	
Carrying amount 31.12.2021	248 970	3 023	34 737	321	180	17 045	304 276	
Movements in 2022							0	
Acquisitions and improvements	189	0	1 564	0	53	50 670	52 476	
<i>Incl. leased assets</i>	0	0	689	0	0	0	689	
Change in right-of-use assets	0	2 151	0	-22	0	0	2 129	
Reclassification	30 083	0	714	0	0	-30 872	-75	
<i>Incl. EU and Domestic government grants</i>	17 848	0	18	0	0	-17 866	0	
Reclassifications from inventories	0	0	0	0	0	1 110	1 110	
Carrying amount of assets sold and written off	-1	0	0	0	0	0	-1	
Depreciation charge/impairment of fixed assets	-17 113	-542	-4 750	-244	-65	-52	-22 766	
<i>Incl. EU and Domestic government grants</i>	-7 198	0	-740	0	0	0	-7 938	17
31.12.2022							0	
Cost	495 777	6 666	82 136	364	1 071	37 901	623 915	
<i>Incl. EU and Domestic government grants</i>	188 873	0	13 820	0	0	0	202 693	
Accumulated depreciation	-233 649	-2 034	-49 871	-309	-903	0	-286 766	
<i>Incl. EU and Domestic government grants</i>	-50 946	0	-2 901	0	0	0	-53 847	
Carrying amount 31.12.2022	262 128	4 632	32 265	55	168	37 901	337 149	

In 2022, fixed assets were sold at a sale price of 60 thousand euros (2021 sales price: 891 thousand euros). Profit on the sale of assets are recognised in the statement of comprehensive income under other operating income in the amount of 58 thousand euros (2021: 871 thousand euros), see also Note 11.3.

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

<i>In thousands of euros</i>	31.12.2022	31.12.2021
Buildings (buildings and facilities)	51 550	52 237
Machines and devices	17 258	22 226
Other equipment	715	814
Total	69 523	75 277

As at 31 December 2022 and 31 December 2021, no assets of the Company were pledged as loan collatera.

Note 4 Intangible Assets

<i>In thousands of euros</i>	Intangible asset	Software project in progress	Total intangible assets
Carrying amount 31.12.2020	1 387	7	1 394
Changes in 2021			
Acquisitions and improvements	223	1 471	1 694
Reclassifications	62	-26	36
Depreciation and impairment of fixed assets	-418	0	-418
Balance as at 31.12.2021			
Cost	5 208	1 452	6 660
Accumulated depreciation	-3 954	0	-3 954
Carrying amount 31.12.2021	1 254	1 452	2 706
Changes in 2022			
Acquisitions and improvements	541	907	1 448
Reclassifications	105	-30	75
Depreciation and impairment of fixed assets	-540	0	-540
Balance as at 31.12.2022			
Cost	3 235	2 329	5 564
Accumulated depreciation	-1 875	0	-1 875
Carrying amount 31.12.2022	1 360	2 329	3 689

Projects in progress includes the development of the traffic management system, the expected completion of which is planned for 2027.

Note 5 Inventories

<i>In thousands of euros</i>	31.12.2022	31.12.2021
Road administration spare parts	5 080	4 482
Spare parts for Telecom and Security Systems	1 827	1 648
Electricity agency spare parts	313	309
Other inventories	129	104
Total inventories	7 349	6 543

The Company did not write down obsolete or unusable inventories during 2022 and 2021.

Note 6 Receivables and Prepayments

<i>In thousands of euros</i>	31.12.2022	31.12.2021
Trade receivables	2 242	2 653
Government grants not received from the state budget for operating expenses to ensure the balance of income and expenditures of (Note 17)	8 716	14 592
Government Grants Receivables (Note 17)	17 205	132
Tax prepayments (Note 10)	3 124	1 567
Prepaid expenses	227	153
Other short-term receivables	184	3
Total receivables and prepayments	31 698	19 100

Movements of allowance for doubtful accounts

<i>In thousands of euros</i>	31.12.2022	31.12.2021
Impairment balance at the beginning of the reporting period	87	628
Write-offs for the reporting period (Note 12.2)	0	81
Receivables received during the reporting period	-6	-252
Receivables written off during reporting period	0	-370
Impairment balance at the end of the reporting period	81	87

Note 7 Changes in Equity

7.1 Share Capital

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

As at 31 December 2022, the Company's share capital amounted to EUR 80,303 thousand euros (2021: 80,303 thousand euros) and was made up of 80,302,814 ordinary shares of the same class and a par value of 1 euro each. All shares have been fully paid for.

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

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

7.2 Statutory Reserve Capital

No statutory reserve capital contributions were made in 2022 (2021: 354 thousand euros).

Note 8 Loans and Lease Liabilities

Loan and lease liabilities as at 31.12.2022

<i>In thousands of euros</i>	Bal- ance	Incl. Non- current portion	Incl. current portion	Maturity date	Interest rate
Swedbank loan agreement	16 963	14 913	2 050	15.12.2025	6 months EURIBOR + 0,95%
EIB loan agreement I	10 000	10 000	0	31.12.2048	0,32%
EIB loan agreement II	15 000	15 000	0	31.12.2048	1,16%
Lease liabilities	7 194	5 841	1 353		average 2,44 %
Total loan and lease liabilities	49 156	45 754	3 402		

Loan and lease liabilities as at 31.12.2021

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

In 2022, interest expense on bank loans and bonds amounted to EUR 187 thousand (2021: EUR 189 thousand) (Note 13).

Net debt

<i>In thousands of euros</i>	Cash and cash equivalents	Loan liabilities with repayment up to 1 year	Loan liabilities with repayment over 1 year	Total
Net debt 31.12.2020	36 467	-2 448	-23 826	10 193
Loans received		0	-11 108	-11 108
Loans repaid		2 546	0	2 546
Reclassification from long-term to short-term		-3 512	3 512	0
Net debt 31.12.2021	36 526	-3 414	-31 422	1 690
Loans received		0	-17 840	-17 840
Loans repaid		3 520	0	3 520
Reclassification from long-term to short-term		-3 508	3 508	0
Net debt 31.12.2022	32 053	-3 402	-45 754	-17 103

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. An amendment of the agreement was signed on 12.12.2022, which increased the loan amount to 113.5 million and extended the deadline to 31.12.2048. Two payments have been made from the said loan: 10 million in 2021 and 15 million in 2022. A fixed interest is attached to both payouts to mitigate the effects of changes in EURIBOR.

As at 31 December 2022 and 31 December 2021, the Company's assets have not been pledged as collateral for loans.

Note 9 Trade Payables and Other Liabilities

<i>In thousands of euros</i>	31.12.2022	31.12.2021
Liabilities on goods and services	14 950	9 383
<i>incl liabilities for property, plant and equipment</i>	9 903	4 604
Other liabilities	63	89
Accrued liabilities to employees	3 114	3 138
Tax liabilities (Note 10)	774	723
Deferred income	726	676
Total	19 627	14 009

Note 10 Prepaid Taxes and Tax Liabilities

In thousands of euros

	31.12.2022		31.12.2021	
	Tax prepayment	Tax liabilities	Tax prepayment	Tax liabilities
Value added tax	1 757	0	1 035	0
Income tax	0	257	0	238
Income tax on fringe benefits	0	8	0	8
Social security tax	0	467	0	436
Funded pension tax	0	12	0	12
Unemployment insurance tax	0	30	0	29
Balance of prepaid taxes	1 367	0	532	0
Total	3 124	774	1 567	723

Note 11 Revenue and Other income

11.1 Revenue by activities

In thousands of euros

	2022	2021
Infrastructure services	25 113	29 718
Rental income	528	496
Other services*	1 707	745
Muud teenused	2 044	1 826
Total sales revenue	29 392	32 785

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

11.2 Revenue by geographical areas

In thousands of euros

Total sale to the EU countries	2022	2021
Estonia	29 211	32 645
Latvia	71	57
Lithuania	18	41
Other countries	52	13
Total sales to countries outside the EU		
Russia	40	29
Total sales revenue	29 392	32 785

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

11.3 Other operating revenue

<i>In thousands of euros</i>	2022	2021
Gain on sale of property, plant and equipment	58	871
Fines, penalties and rewards	160	274
Financing from the Government grants for operating expenses (Note 17)	20 716	14 592
Financing from the Government grants for operating income (Note 17)	7 938	7 082
Other operating income	765	208
Total other operating income	29 637	23 027

Note 12 Operating Expenses

12.1 Goods, materials and services

<i>In thousands of euros</i>	2022	2021
Raw materials and consumables	1 138	1 316
Services purchased for resale	1 307	843
Tehnolocigal electricity	2 734	1 847
Railway repair and maintenance	2 770	2 581
Real estate maintenance	877	854
Repair and maintenance of means of transport	879	679
Maintenance of telecommunications, electricity and safety systems	708	584
Freight security services	868	820
Other rail transport services	659	323
Total goods, materials and services	11 940	9 847

12.2 Other operating expenses

<i>In thousands of euros</i>	2022	2021
Lease and rental charges, right of superficies	494	448
Electricity	582	420
Utilities	492	502
Office expense	1 002	822
Business travel expense	97	38
Training expense	151	130
National and local taxes	322	325
Insurance services	208	202
Spare parts and maintenance of cars	37	23
Outsources services	396	343

Information services	32	48
Other staff costs	469	430
Environmental costs	71	24
Bad debt (Note 6)	-7	-289
Other expenses	29	44
Total other operating expenses	4 375	3 510

12.3 Personnel expenses

<i>In thousands of euros</i>	2022	2021
Remuneration, performance fees, holiday pay and bonuses	14 845	14 329
Taxes on personnel expenses	4 661	4 403
Total personnel expenses	19 506	18 732

Number of employees

Number of employees at the beginning of the period	683	672
Number of employees at the end of the period	676	683
Average number of employees	675	675

Note 13 Financial Income and Expenses

<i>In thousands of euros</i>	2022	2021
Interest income	58	32
Interest expense	-317	-334
<i>incl. interest expense on loans</i>	-187	-189
<i>interest expense on finance lease</i>	-130	-145
Profit/loss from foreign currency translation differences	-21	38
Total financial income and expenses	-280	-264

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 2022, the Company's undistributed profits totaled EUR 91 341. Considering the Commercial Code's requirement to transfer at least 5% of the financial year's net profit to statutory reserve capital, it is possible for the Company to make distributions from its retained earnings as 31 December 2022 in amount up to EUR 91 341 thousand (2021: EUR 91 341 thousand). The maximum income tax liability that would arise, if all of the undistributed profits were distributed as dividends as at 31 December

2022, amounts to EUR 18 268 thousand (2021: EUR 18 268 thousand), net dividends amounts to EUR 73 073 thousand (2021: EUR 73 073 thousand).

According to the profit allocation proposal made by the Management Board, in 2022 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 01.01.2022-31.12.2022. 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 2022, the company has entered into agreements for the years 2023 to 2045, of which the liabilities arising until the end of the agreement period total to EUR 233.1 million (2021: EUR 186.1 million)..

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

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

Liabilities arising from government grants

The European Union Cohesion Fund has the right to recover funds in the event of a breach of the grant agreement. As at 31 December 2022, 186.7 million euros had been received from such government grants (31 December 2021: 159.6 million euros).

Pending court cases

1. OÜ Muldkeha filed a claim against AS Eesti Raudtee for unjust enrichment and damages in the amount of 1,221 thousand euros. The court accepted the action on 24 January 2020. AS Eesti Raudtee does not recognize the claim. The land on which the embankment was based was not privatized to the applicant via pre-emption right due to the dismantling of the railway by the applicant in 2004. The embankment can no longer be considered a building. The land under the embankment was left in state ownership and the embankment became an important part of the property. The State refused to establish the right of superficies in favor of the applicant and in 2018 established the right of superficies in favor of Eesti Raudtee. The Harju County Court made a decision on 22 June 2021, by which partially satisfied OÜ Muldkeha claim and ordered compensation from Eesti Raudtee in favor of OÜ Muldkeha in the amount of 739,283.52 euros. AS Eesti Raudtee filed an appeal against the decision of the Harju County Court with the Tallinn Circuit Court on 21 June 2021. The district court hearing took place on 2 February 2022. The district court satisfied the appeal of Eesti Raudtee, annulled the decision of the county court and completely dismissed the claim, annulled the decision of the county court and completely dismissed the claim. Since the Supreme Court did not take OÜ Muldkeha's cassation appeal into proceedings, the Tallinn District Court's decision of 10.03.2022, which annulled the decision of the

Harju County Court of 22.06.2021, remained in force.

2. At 12 November 2018, AS Eesti Raudtee filed an action with the court in respect of the partially unpaid user fee for the single rides of AS Operail locomotives over the period of three years in the amount of 6,152 thousand euros plus default interest of 244 thousand euros. At 20 November 2018, the court accepted the action for proceedings. In its response, AS Operail did not acknowledge the claim related to the fixed cost of the user fee of single locomotive rides and filed objections. AS Eesti Raudtee negotiated a compromise settlement with AS Operail. No agreement was reached to the satisfaction of both parties. A preliminary sitting was held on 18 June 2020. On 29 June 2020, the court proposed to the parties to compromise on the amount for about a quarter of the claim i.e. 1.3 million euros. The parties had to notify the court of the compromise no later than 28 August 2020. AS Eesti Raudtee has negotiated a compromise settlement with AS Operail. AS Operail did not agree with this compromise. A preliminary hearing was held on 29 October 2020 where the parties explained their views. The next preliminary hearing was to take place on 14 January 2021, but the court wanted to hold a hearing at the end of March. AS Operail requested that the proceedings be suspended or the hearing adjourned for 8 months in connection with the Supreme Court's decision in administrative matter no. 3-16-2653. The litigation ended with a compromise approved by the Harju County Court on 10 November 2022, according to which Operail will pay 530,000 euros to Eesti Raudtee in three equal installments no later than 31.07.2024.
3. On 07.11.2022, AllSpark OÜ contested the decision of the procurer in the state procurement of Estonian Railways "Communication cable repair and maintenance framework contract 2022-2025", which AllSpark was removed from due to fines applied for violation of the previous procurement contract. By Public Procurement Review Committee (VAKO) decision of 7 December 2022 in appeal case no. 145-22/255223, AllSpark's appeal was rejected and AllSpark was ordered to pay the costs of the contractual representative in favor of the procurer. VAKO found that the Procuring entity may remove an entity from the procedure who has significantly or continuously violated an important condition of the previously concluded procurement contract or important conditions of the procurement contracts in such a way that, as a result of the violation, the contract has been withdrawn or the contract has been terminated, the price has been reduced, damages have been compensated, or liquidated damages have been paid. On 19.12.2022, AllSpark submitted a complaint to the Administrative Court of Tallinn regarding the cancellation of the decisions to eliminate AllSpark and reject AS Connecto Eesti's offer in the public procurement of Estonian Railways "Communication cable repair and maintenance framework contract 2022-2025" and VAKO's decision of 07.12.2022 in challenge case No. 145-22/255223. On 02.02.2023, the Tallinn Administrative Court made a decision dismissing AllSpark's appeal and awarding AllSpark procedural costs in the amount of 9,680 euros in favor of Eesti Raudtee. AllSpark can file an appeal against the decision to the Tallinn District Court within 10 days of the public announcement of the decision, i.e. no later than 13.02.2023.



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.

Balancies with related parties

In thousands of euros

	31.12.2022	31.12.2021
Receivables		
Entities related with members of the Management and Supervisory Boards	23	23
Government related railway entities	2 336	2 443
Liabilities		
Entities related with members of the Management and Supervisory Boards	1	129
Government related railway entities	669	617

Transactions with related parties

In thousands of euros

	2022	2021
Services sold		
Entities related with members of the Management and Supervisory	198	130
Government related railway entities	29 292	30 011
Services purchased		
Entities related with members of the Management and Supervisory	194	5 974
Government related railway entities	118	2 563

In thousands of euros

	2022	2021
Remuneration and benefits to management	458	364

Note 17 Government Grants

Government grants receivable (Note 6)

In thousands of euros

	31.12.2022	31.12.2021
Government grant receivable for the purchase of property, plant and equipment	17 205	126
Government grant receivable from the state budget for operating expenses to ensure the balance of income and expenditures of the company	8 716	14 592
Other government grant receivables	0	6

Government grants for operating expenses

In thousands of euros

	2022	2021
Government grant received from the state budget for operating expenses to ensure the balance of income and expenditures of the company (Note 11.3)	20 716	14 592
Other government grants received	66	36

Government grants for assets

In thousands of euros

	2022	2021
Liabilities related to government grants at the beginning of the period	147 822	142 570
EU funds (purchased fixed assets)	110 598	109 234
EU funds (purchased fixed assets)	4 078	2 361
Domestic government grants	31 329	25 296
Prepaid domestic government grants for fixed assets	1 817	5 679

Movements during the accounting period

Increase in government grants for acquired fixed	31 959	12 334
EU funds	29 247	9 117
Domestic government grants	2 712	3 217
Recognition of liabilities acquired through government grants in income	-7 938	-7 082
EU funds	-6 748	-6 036
Domestic government grants	-1 190	-1 046

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

	171 843	147 822
EU funds (purchased fixed assets)	120 646	110 598
EU funds (prepayments received)	16 529	4 078
Domestic government grants	31 104	31 329
Prepaid domestic government grants for fixed assets	3 564	1 817

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

At 28 June 2018, Annex 4 to the funding contract "Investments for special purposes in 2018-2020" was concluded, on the basis of which the Company was paid EUR 21.5 million for funding its investment projects in 2018, including renovation of Tallinn-Tartu and Tapa-Narva railway lines and increasing speed to 135 km/h, as well as construction of Haapsalu railway line. The contract has been extended until 31.12.2025. In 2022, an additional 0.5 million euros was allocated to finance the Haapsalu railway project.

During 2022, the Company used 0.9 million euros of the government grants received (2021: 7.1 million euros)

In January 2023, financing decisions were signed for investment projects of the EU program period 2021-2027 in the amount of 319 million euros, of which 85% is financed from the EU Cohesion Fund and 15% from the state budget. Within the framework of the program, railway electrification and curve straightening and railway overhaul will be carried out in accordance with the 2021-2028 action plan for the development of public railway infrastructure established by the Government of Estonia.

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 Aktsiaselts Eesti Raudtee

Our Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Aktsiaselts Eesti Raudtee (the "Company") as at 31 December 2022, 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 balance sheet as at 31 December 2022;
- the statement of comprehensive income for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Reporting on other information including the Management report

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

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

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

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Lauri Past
Auditor's certificate no. 567

Kristiina Veermäe
Auditor's certificate no. 596

AS PricewaterhouseCoopers
Licence no. 6
Tatari 1, 10116 Tallinn

March 18, 2023
Tallinn, Estonia

Profit Distribution Proposal

Net profit of AS Eesti Raudtee for the year 2022 was 0 euros.

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

Signatures of the Management Board

The annual report of AS Eesti Raudtee for the year ended 31 December 2022 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 profit allocation proposal.

Kaido Zimmermann

Chairman of the Management Board - CEO

Andrus Kimber

Vice-Chairman of the Management Board - CFO

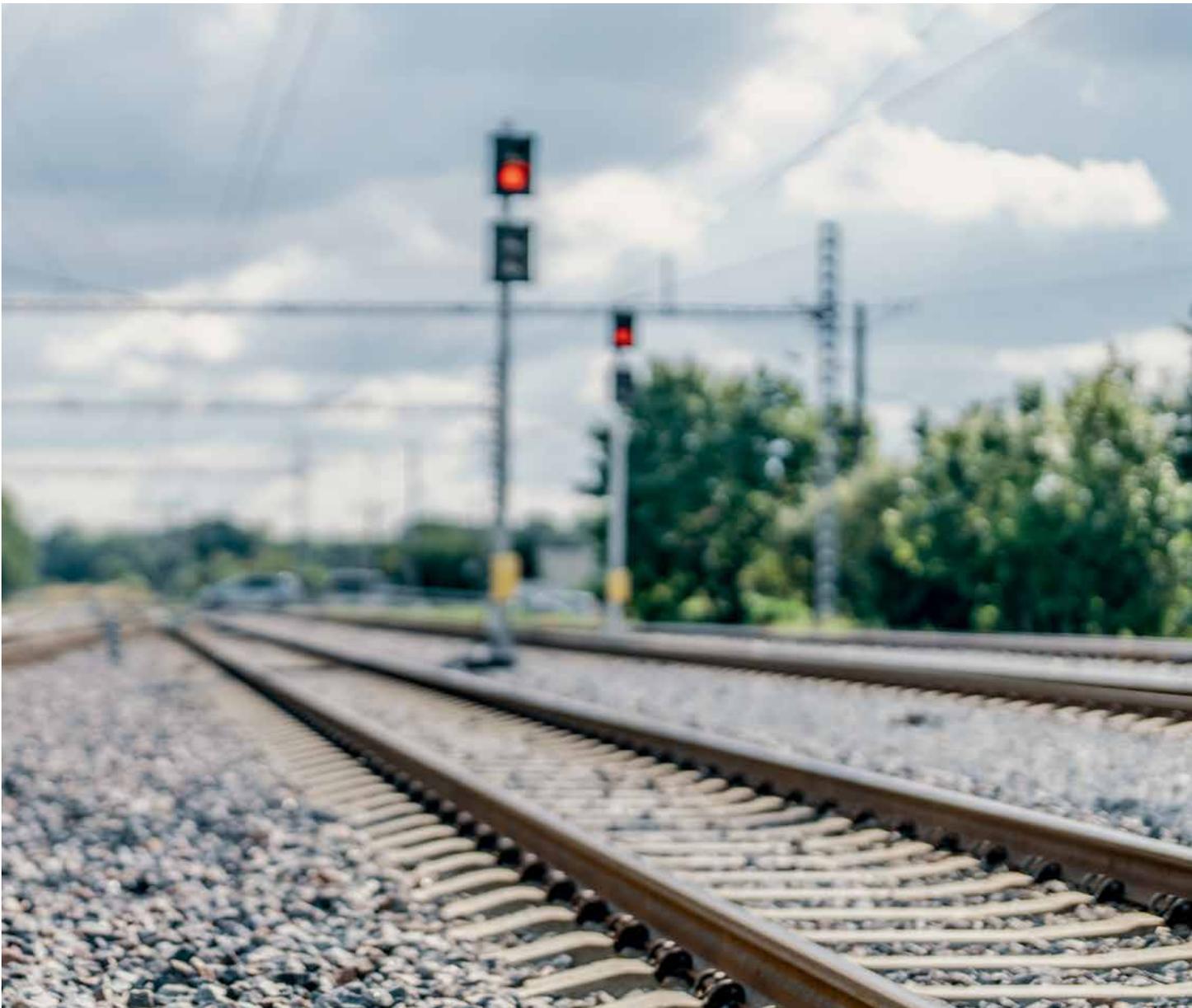
Arvo Smiltinš

Member of the Management Board - Technical Director

16 March 2023

List of Business Activities

Business activity	EMTAK code	2022	2021
Infrastructure services	52219	24 717	29 342
Lease and rental services	77391	234	417
Purchased and resold energy	35141	1 394	994
Telecommunications services	61901	397	376
Real estate services, rental of building and premises	68201	528	497
Sale of inventory	45311	1 706	745
Other services	82991	416	414
		29 392	32 785



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
	102-3	Location of headquarters	3
	102-4	Location of operations	6
	102-5	Ownership and legal form	8
	102-6	Markets served	6, 36-38
	102-7	Scale of the organisation	8, 24, 65, 127
	102-8	Information on employees and other workers	65, 127 (All activities are carried out by own employees, except for sub-contractors in project-based procurement. The company does not employ employees with fixed-term contracts, except for members of the board. Also, no seasonal, project-based or temporary labor is used. There is no information about full-time and part-time employees)
	102-9	Supply Chain	55 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 sub-contractors 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	
	102-11	Precautionary principle or approach	56-61

102-12	External initiatives	74-77
102-13	Memberships of associations	31
Strategy		
102-14	Statement from senior decision-maker	10-11
102-15	Key impacts, risks, and opportunities	20, 22-23, 27-28
Ethics and Integrity		
102-16	Values, principles, standards and standards of conduct	27
102-17	Identification and resolution of ethical issues	27
Governance		
102-18	Governance structure	24-26 (The ultimate responsibility for social and environmental issues lies with the Management Board of AS Eesti Raudtee)
Stakeholder Engagement		
102-40	List of stakeholder groups	The company's most important stakeholders are employees, customers, passengers, suppliers and subcontractors, cooperation partners and other organizations in the field, sole shareholder and public sector institutions and the wider Estonian public.
102-41	Collective bargaining agreements	69
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. 20, 30-31, 42, 50, 55, 63, 66-67, 75 (In addition: communication with closer stakeholders takes place in the course of daily work (see GRI 102-40). The expectations of a wider range of stakeholders for the company's activities were mapped at the end of 2019 through an online survey as part of the preparation of the annual report. A customer satisfaction survey was also conducted in 2022).
102-43	Approach to stakeholder engagement	
102-44	Key topics and concerns raised	20, 23
Reporting Practice		
102-45	Entities included in the consolidated financial statements	AS Eesti Raudtee has no additional consolidation entities.
102-46	Defining report content and topic Boundaries	3
102-47	List of material topics	20-23
102-48	Restatements of information	No restatements.
102-49	Changes in reporting	This is the company's fourth 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 27.04.2022

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	122-127
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		29, 43
	non-GRI	Performance indicators	43

Economic Performance (GRI 201: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		81-83
	201-1	Direct economic value generated and distributed	81-85

Indirect Economic Impact (GRI 203: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		20-23
	203-1	Infrastructure investments and services supported	83
	203-2	Significant indirect economic impact	20-23

Purchasing Principles (GRI 204: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		55
	204-1	Purchases from local suppliers	55

Korruptsioonivastane tegevus (GRI 205: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		27-28
	205-1	Operations assessed for risks related to corruption	As a result of an overall risk assessment covering the entire company, it is known which risks may be involved in corruption (in particular in relation to procurement).
	205-2	Communication and training about anticorruption policies and procedures	27 The principles are accessible to all employees. All staff with procurement, decision-making and managerial responsibilities must participate in the training.
	205-3	Confirmed incidents of corruption and actions taken	In 2022 there were no cases involving employees or subcontractors.

Energy (GRI 302: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		48, 58-59
	302-1	Energy consumption within the organisation	58
Biodiversity (GRI 304: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		61
	304-1	Operational sites on protected areas and areas of high biodiversity value outside protected	61
Emissions (GRI 305: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		58-59
	305-1	Direct (Scope 1) GHG emissions	58-59 (Data only for those boiler houses for which the company is obliged to measure ambient air emissions.)
	305-7	Nitrogen oxides (NO _x), sulphur oxides (SO _x), and other significant air emissions	Nitrogen oxides NO _x – 0,31 tons Sulphur oxides SO _x – 0,05 tons Particulate matters in total PM – 0,09 tons Volatile organic compounds VOC – 0,06 tons Carbon dioxide CO ₂ – 253,5 tons Carbon oxide CO – 0,14 tons Data only for those boiler houses for which the company is obliged to measure ambient air emissions.
	non-GRI	Electrification	56
Effluents and Waste (GRI 306: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		60
	306-2	Waste by type and disposal method	60 (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	61
Environmental Compliance (GRI 307: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		56-63
	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		64-72

	401-1	New employee hires and employee turnover	65 (The company operates in one country and therefore does not keep records by smaller regions.)
	non-GRI	Other indicators of the collective	64-66, 70-71, 128
Occupational Health and Safety (GRI 403: 2018)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		69
	403-1 to 403-7		69
	403-9	Work-related injuries, absences and days lost, fatal accidents at work	(In 2022 there was 1 work-related accident. The company does not measure occupational safety indicators related to subcontractors.)
	non-GRI	Safety training for employees	50, 69
Training and Education (GRI 404: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		70-72
	404-1	Average hours of training per year per employee	71 (As both men and women have equal opportunities to participate in the trainings, the company does not keep records by gender.)
	404-2	Employee skills and transition assistance programs	70-72 (There are no development programs after the termination.)
	404-3	Performance and career development reviews	All employees undergo performance and career development reviews.
	non-GRI	Leadership development programs	71
Diversity and Equal Opportunity (GRI 405: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		72
	405-1	Diversity of governance bodies and employees	64, 72, 127
Non-Discrimination (GRI 406: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		72
	406-1	Incidents of discrimination and corrective actions taken	72
Local Communities (GRI 413: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		30, 63, 74

413-2	Operations with significant actual and potential negative impacts on local communities	30, 56
non-GRI	Complaints received from residents	There were a total of 16 noise complaints due to both construction works and infrastructure maintenance (2021: 12)

Customer Health and Safety (GRI 416: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3	50-53
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	52
non-GRI	Safety awareness in society	51

Socioeconomic Compliance (GRI 419: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3	21-23, 27-29
419-1	Non-compliance with laws and regulations in the social and economic area	No instances

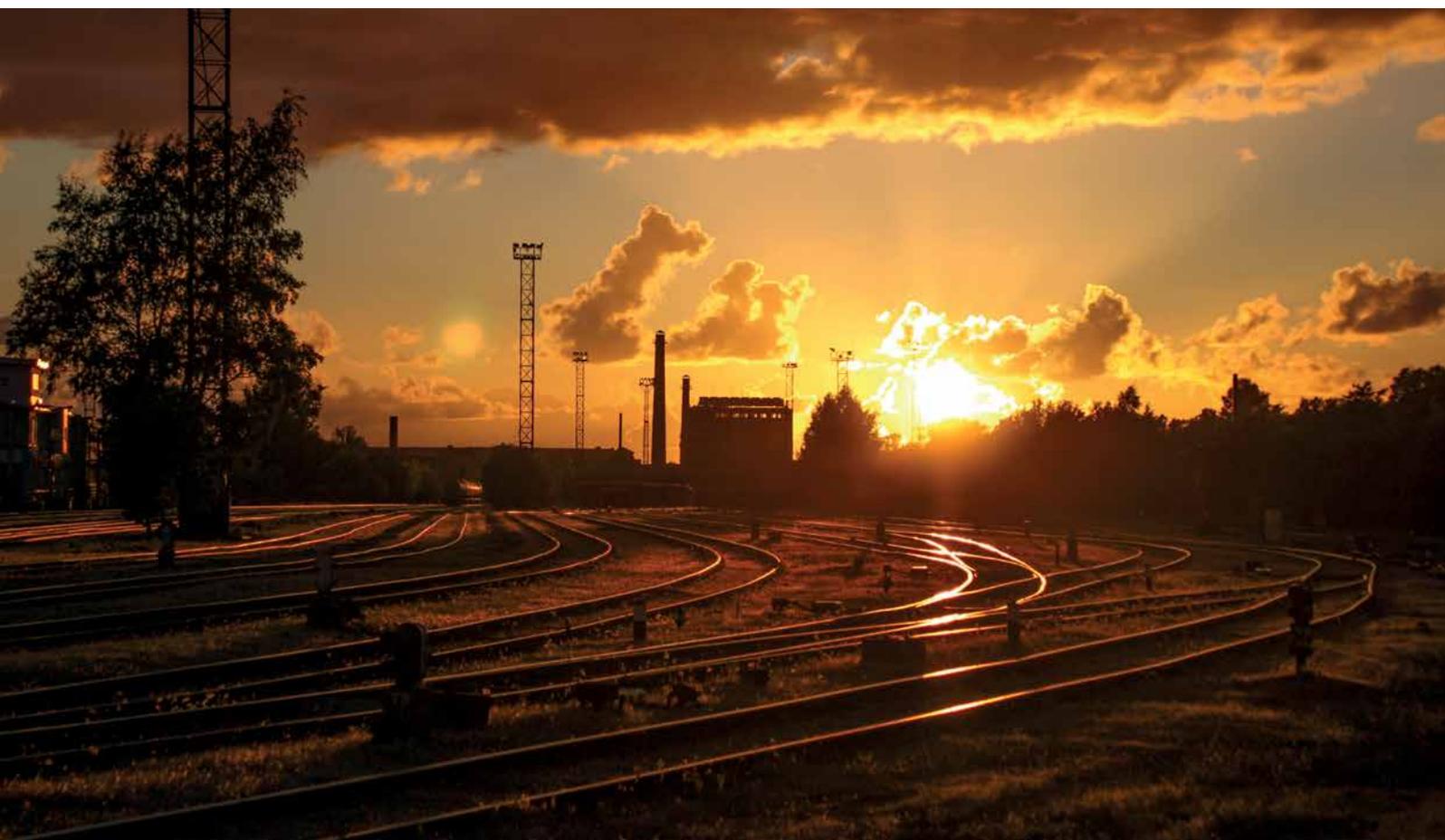


Table of Employees as at 01 January 2023

	Members of the Management Board and Management		Other office workers (excluding the board and management), engineers and so-called technical staff		Workers		Total
							
Number of employees under 30			13	7	11		31
Number of employees aged 30–49	2		84	85	57		228
Number of employees aged 50 and over	4		95	190	117	10	416
- incl. employees 60 and over		1	35	71	45	5	157
- incl. employees in pensioner age group			17	29	22	2	70
Number of employees in total:	6	1	192	282	185	10	676
Percentage of permanent employees (excl. members of the Management Board) (% of all employees in the category)							
Number of new employees under 30			2	2	9		13
Number of new employees aged 30–49			11	12	17		40
Number of new employees aged 50 and over			2	2	15		19
- incl. employees 60 and over			1		2		3
- incl. employees in pensioner age group							0
New employment contracts in total	0	0	15	16	41	0	72
Number of employees under 30			1		1		2
Number of employees aged 30–49			8	4	10		22
Number of employees aged 50 and over			10	26	16		52
- incl. employees 60 and over			6	20	9		35
- incl. employees in pensioner age group							0
Number of contracts ended during the year			25	30	36	0	76



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