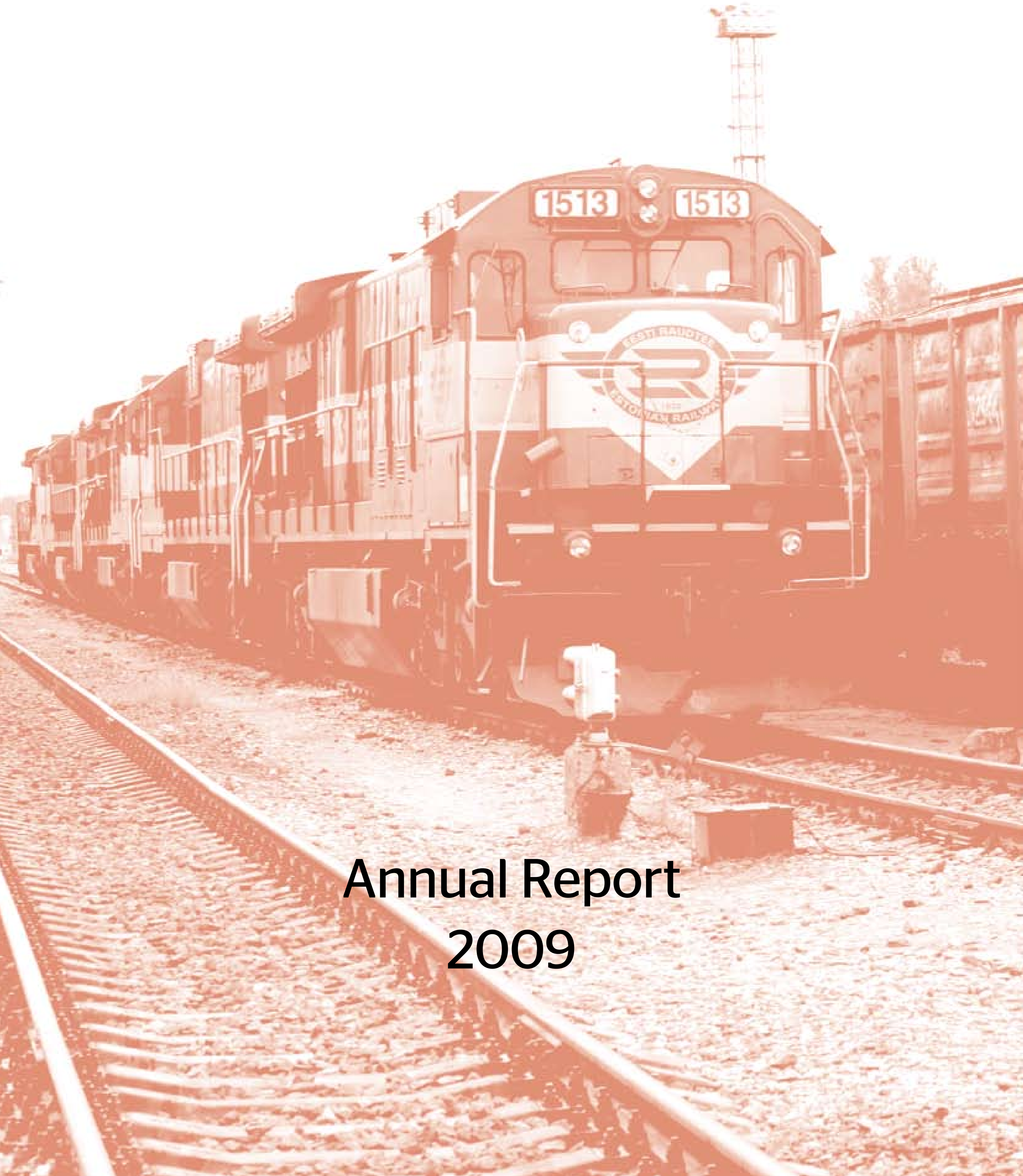
EESTI RAUDTEE
estonian railways



Annual Report
2009

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Scheme

History

The first railway line in Estonia connected Tallinn and Narva and was opened on 24th October 1870. This date marks the birth of Eesti Raudtee (Estonian Railways).

In 1940, the Railways of the Republic of Estonia were incorporated into the rail network of the Soviet Union.

In 1991, after the Republic of Estonia regained its independence, this organisation, which was previously subordinated to the military, started to function as an economic transit channel.

In January 1992, the state enterprise Eesti Raudtee was founded and, in 1997, it was restructured into a public limited company (AS).

In April 2000, the Estonian Privatisation Agency announced the auction for privatisation of 66 per cent of the shares of AS Eesti Raudtee.

On 30th April 2001, the Estonian Privatisation Agency entered into a privatisation agreement with Baltic Rail Services OÜ (BRS), the winning bidder.

On 31st August 2001, BRS acquired the majority shareholding in AS Eesti Raudtee.

On 9th January 2007, the Republic of Estonia repurchased 66 per cent of the shares from BRS for EEK 2.35 billion, becoming again the sole owner of the company.

In the summer of 2008, Eesti Raudtee moved to its new main building at Toompuiestee 35, Tallinn.

On 14th January 2009, the division of AS Eesti Raudtee was officially registered in the commercial register, with the establishment of two subsidiaries: AS EVR Infra dealing with the management and maintenance of infrastructure, and AS EVR Cargo dealing with freight transport.

Kaido Simmermann, Chairman of the Management Board and Managing Director of Estonian Railways

Letter of the Chairman of Management Board

Celebrating the 140th birthday of railway traffic in Estonia in 2010, Estonian Railways stands out as a good example, in the rapidly changing economic environment, of how to adapt to hectic circumstances in order to cope successfully and profitably.

2009 saw a number of important changes to Estonian Railways. In the beginning of the year the company began to operate as a group of undertakings, comprising two independent affiliates subjected to Estonian Railways Ltd., EVR Cargo and EVR Infra, formed for the purposes of organising freight transport and managing infrastructure.

This change will lead to a more transparent supervision of revenue and expenditure in the group's different fields of activity.

Within one year, inter-enterprise relations were defined by contracts and prices for services agreed upon. Many other railway companies in Europe, who, like us, have restructured their organisation, have, however, not managed to attain a new and functioning system as quickly and flexibly as we have.

Moreover, in 2009, our tariff system and methodology for calculating user fees for exploiting the railway infrastructure of Estonian Railways became significantly more flexible and client-friendly, by maintaining the competitiveness of the group in the market situation through decreasing volumes.

The new framework laid down by the methodology used by the Estonian state enables carriers to estimate the cost of transport fairly accurately. Our clients' sense of security was further improved by entering into three-year contracts at fixed prices.

At a time when the capacities of railway companies of the neighbouring states fell by 20-30 per cent, the carriage of goods on the infrastructure of Estonian Railways only decreased by 2.7 per cent. I believe that this is the result of the stable business environment for rail transport which we managed to create in 2009.

In addition to the aforementioned measures, the good position of Estonian Railways is also the result of the early optimisation of its activities in comparison with other enterprises, and more efficient use of human resources during the period of general economic growth, when most companies were raising tariffs for profit instead of scrutinising their expenditure.

However, there is no reason to rest on our laurels. The global economy, including the transportation sector, is constantly changing, and in order to remain competitive, one must continuously resolve new tasks. It is common knowledge that the former voluminous transportation of heavy fuel oil via Estonia will soon be, to a large extent, concentrated on the ports of Russia. Our job is to compensate for this trend by carrying other goods and by creating new trade routes.

Although a lot of talk has concerned the potential development of a Chinese or Kazakh rail connection, or working for an increase in the volume of container carriages, we shall value equally our cooperation with any partner. Furthermore, we have to look for ways to compete more successfully with other types of transport, especially road transport.

A decrease in the intensity of railway traffic in recent years has given Estonian Railways an opportunity to execute an extensive investment programme aimed at modernising the railway infrastructure.

Owing to the substantial support from the EU Structural Funds and help from the Estonian state, the modernisation of trunk lines in the eastern and western direction from Tallinn is coming to a successful close.

A project directed by the Estonian state, a new modern railway border crossing point in the south-eastern part of Estonia, will be completed in 2011.

The Koidula border crossing point will facilitate an increase in railway capacity and the assortment of goods transported over the border, also creating opportunities for new trade routes.

At a state level it has been decided in principle to undertake major repairs of the railway sections running westward from Tallinn and the plant for transforming and carrying electric power for electric train haulage, which is important mainly for the traffic of passenger trains, the development of which is one of the priorities of the Estonian state. In theory, a complete set of new trains will be adopted by the passenger train traffic system in Estonia by 2013, the purchase of which was co-financed by the Estonian state and the EU Structural Funds.

As we have been managing the group vigorously and retrained our capacity to invest in the improvement of railroad infrastructure, I do believe that in 2010 Estonian Railways will meet plenty of new challenges and opportunities for development, for which our capabilities are definitely not lacking.

The structure of Estonian Railways

AS EESTI RAUDTEE

AS EVR Infra
100%

AS EVR Cargo
100%

Livonia Rail Service SIA
100%

Some facts about Eesti Raudtee:

(as of 31 December 2009)

Business indicators:	2009	2008	2007
Cargo transport turnover, million net tonne-kilometres	5 591	5 581	8 121
Average haulage distance, km	220	214	221
Volume of local transport, million t	2.84	4.06	4.9
Volume of international transport, million t	22.54	22.01	31.8
Financial results:			
Sales revenue, million EEK	1 516.7	1 649.9	1 637.0
Net profit, million EEK	120.4	69.6	143.8
Investments, million EEK	609.6	459.8	645.4
Equity capital, million EEK	2 174.6	2 054.2	1 881.5
Employees:			
Number of employees	1 672	1 821	2 095
Total labour costs, million EEK	413.9	468.8	480.7
Average monthly salary, EEK	14 601	13 634	12 902

Jaanus Paas,
Chairman of the Management Board of EVR Cargo

AS EVR Cargo

AS EVR Cargo's first year of existence has been very busy. The first task facing the company has been to introduce a new division of labour, resulting from the changes in responsibility which the division had brought about, and implementing these reforms as consistently and seamlessly for customers as possible. Similarly the routine workflow needed to be run as efficiently and optimally as possible.

This situation was compounded by a decreased freight volume that forced the firm to find cost-savings measures and increase its efficiency. As summaries of the cargo freight volume for 2009 show, the freight volume moved to an increase in the second half of the year since different measures of optimization of activity were carried out during that time, EVR Cargo achieved significant economic stability in the second half of the year.

The most positive news for 2009 was the success of the new calculation method for infrastructure user fees, as this has meant that maximum rates of fees were fixed for the three following years. In turn, these improvements have helped to win customers' trust, facilitating increased stability and longer contract times for the carriers of goods.

A port in Ust-Luga, Russia, will be the most important impact feature of 2010 concerning the volume of transit goods through Estonia, and for this reason a significant proportion of freight currently transited through Estonia is likely to be sent there.

One of EVR Cargo's priorities for 2010 will be the preservation of the overall volume of Estonian transit.

In 2010, we remain optimistic about the future of container transport in spite of the fact that the volume of container freight decreased considerably in 2009.

EVR Cargo intends to enter the market with new services in container freight transport and develop existing services with the aim of carrying a continually increasing volume of cargo and contributing to the development and reputation of Estonia as an attractive transit corridor.

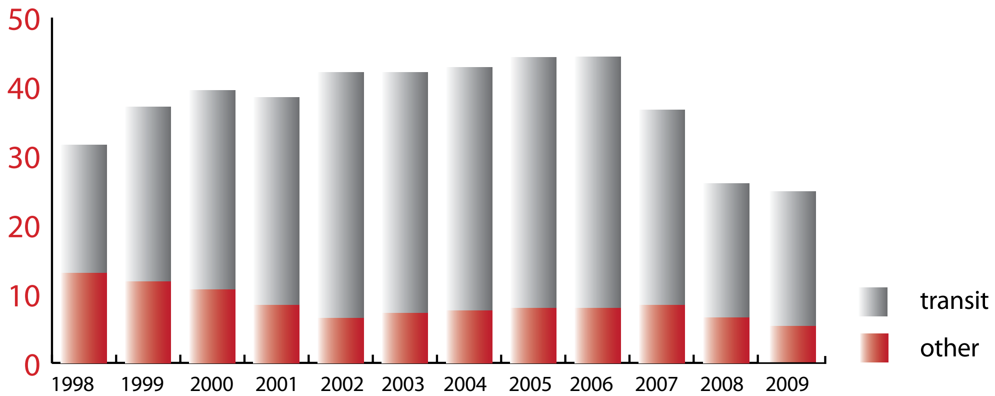
AS EVR Cargo, specialising in the transportation of goods, will continue to implement quality corrective measures and to improve its cost-effectiveness, as well as to strengthen the organization as a whole with the aim of remaining innovative and competitive in the fast-changing economic climate.

Freight operations on the infrastructure of Estonian Railways

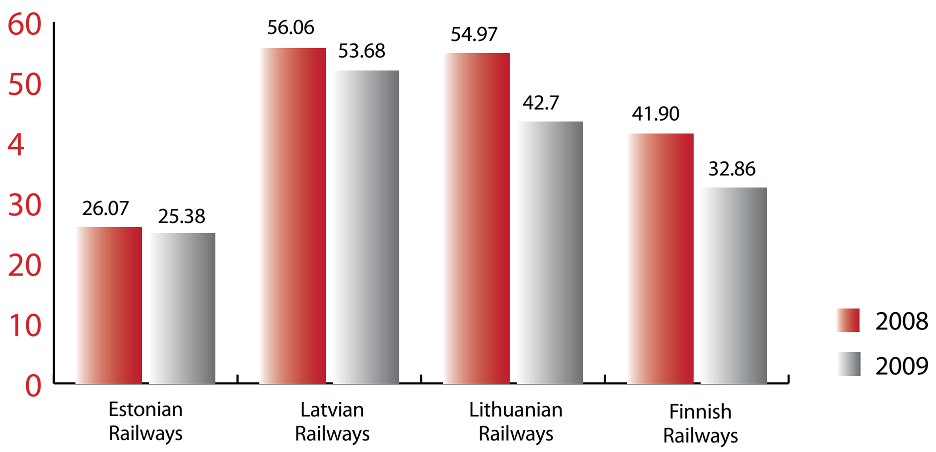
In spite of the setbacks of 2009 in the Estonian as well as the global economy, there was only a marginal decline in the volume of freight transported using the infrastructure of Estonian Railways. As a total, 26.071 million tonnes of goods were transported in 2008, the volume in 2009 was 25.375 million tonnes that is only 2.67 % less than in the preceding year.

Compared with the railway networks of the neighbouring countries, Estonian Railways experienced the smallest decline. The decline was 4% in Latvia and was as high as 22% in Finland and Lithuania.

The volume of freight carried on the infrastructure of Estonian Railways in 1999-2009

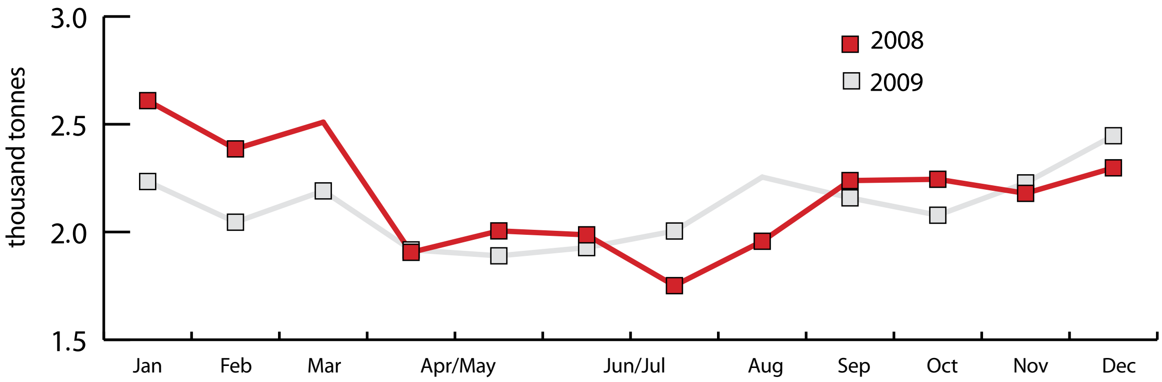


The volume of freight transport in Estonia and its neighbouring countries in 2008-2009



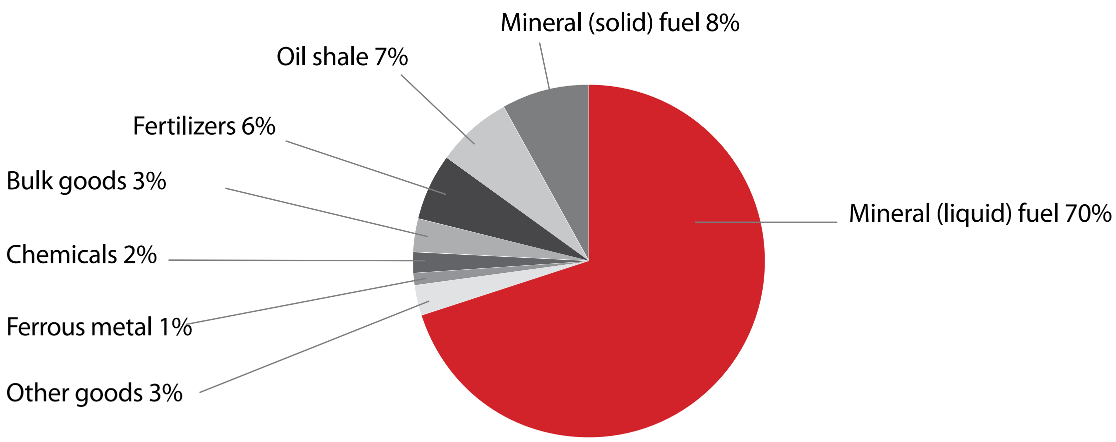
Monthly analysis of the volume of freight show that the carriage of goods in the second half of 2009 was significantly more successful than it had been in the first half of the previous year. This was a result partly of the gradual recovery in the global economy as well as the increase in capacity of the Russian traffic flow to a certain degree.

Freight volume by months in 2008-2009 on the infrastructure of Estonian Railways



Among the commodity groups, the biggest volume was provided by mineral fuel (as in the previous years), amounting to 17.573 million tonnes (when compared with 2008, the decline was 4%), followed by solid mineral fuel volumes of 2.033 million tonnes (+233%), the increase was effected at the expense of coal, oil shale of 1.861 million tonnes (-34%), fertilizers of 1.456 million tonnes (+76%), bulk goods of 0.863 million tonnes (-6%), chemicals of 0.462 million tonnes (-24%), ferrous metal of 0.324 million tonnes (-44%) and wood and wood products of 0.144 million tonnes (-64%).

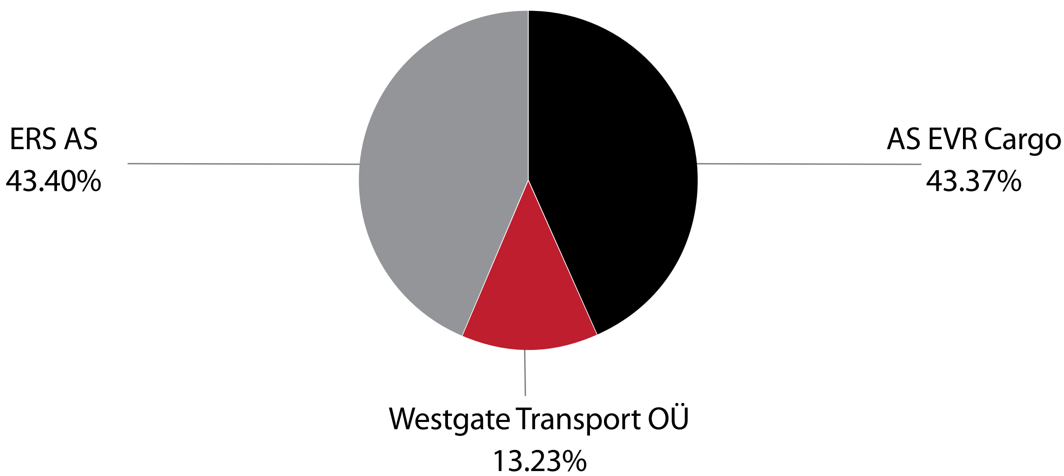
Freight volume by commodities in 2009 on the infrastructure of Estonian Railways



In 2009, three main operators used the infrastructure of Estonian Railways: AS EVR Cargo, AS E.R.S and AS Westgate (until May) the volume of the latter company was then recorded as AS E.R.S.

As the result of the year, the market share of the transported volume of EVR Cargo was 43.4 per cent, i.e. a total volume of 11.005 million tonnes. A year before, the market share of Estonian Railways had been 51.2 per cent.

Freight volume by operators in 2009 using the infrastructure of Estonian Railways

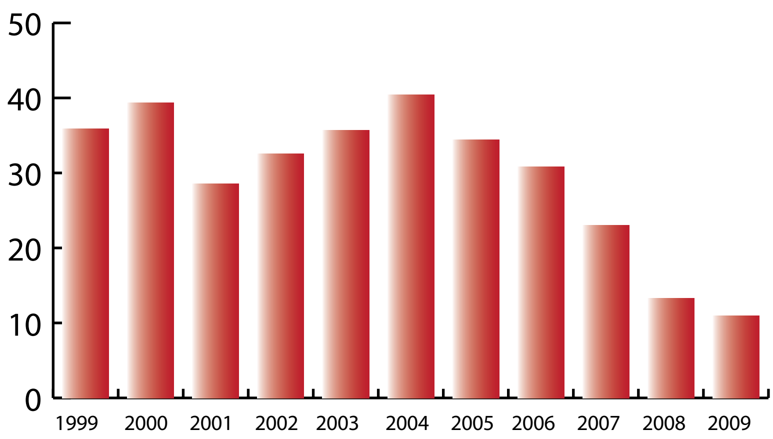


Freight operations of AS EVR Cargo

As the total freight volume of Estonian Railways did not decline in the difficult economic situation, the freight volume of EVR Cargo (the volume earlier carried by Estonian Railways) declined significantly, 17.6 per cent: from 13.359 million tonnes in 2008 to 11.005 million tonnes in 2009.

The main reason for this significant decline was the global economic crisis that affected domestic transportation and transit, as well as the problems related to approval of transportation plans by the Russian counterparts that hindered the transportation of bigger volumes of freight.

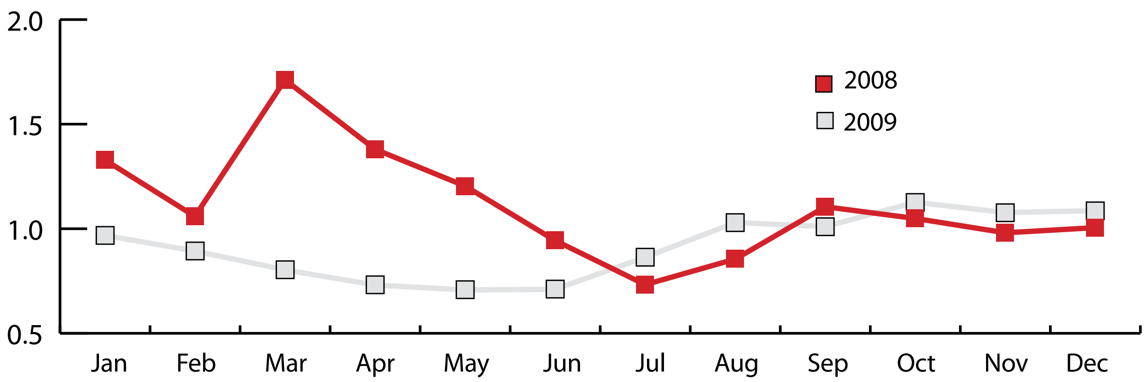
The volume of freight transport in 1999-2009*



** 1999 – 2008 AS Eesti Raudtee; 2009 AS EVR Cargo*

Monthly analysis of the volume of freight show the biggest decline in the first half of the year as the freight volume remained below 1 million tonnes per month, being 50 per cent less than in the preceding year. The freight volume had a rising trend in the second half of the year, achieving the biggest volume in October, amounting to 1.125 million tonnes. In total, the annual freight volume of EVR Cargo was 11.005 million tonnes, about 18 per cent less than in the corresponding period in the preceding year.

Freight volume by months in 1999-2009*

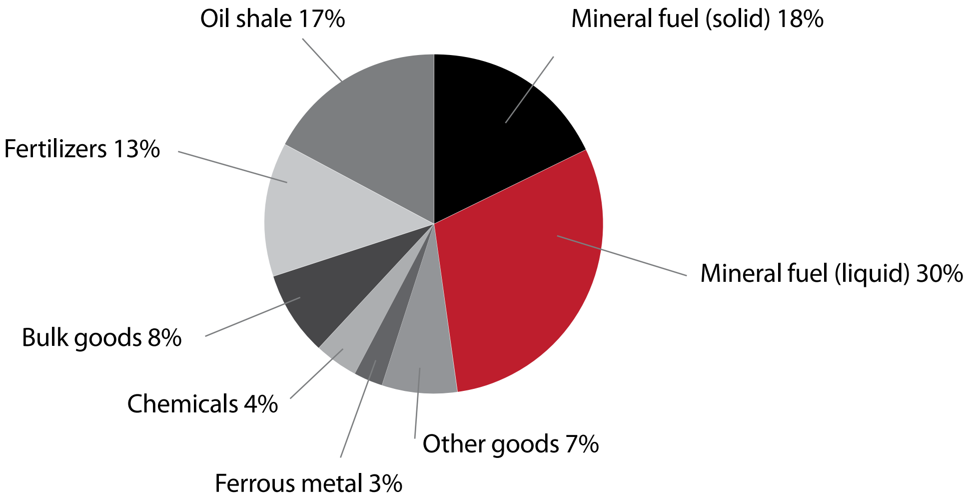


** 2008 AS Eesti Raudtee; 2009 AS EVR Cargo*

The biggest volume of goods transported by EVR Cargo in 2009 was liquid mineral fuel; 3.214 million tonnes were carried (-43% compared with the volume in 2008). Solid mineral fuel was the next largest in volume, amounting to 2.033 million tonnes due to the increase in the volume of coal. The increase compared to the preceding year was a remarkable 311 per cent. Compared with 2008, the volume of oil shale decreased by 33,5% per cent the total volume amounting to 1.861 million tonnes, the transportation of fertilizers increased by 76 per cent, i.e. 1.455million tonnes. Bulk goods saw the next largest increase, amounting to 0.863 million tonnes (-5.5 per cent), chemicals 0.462 million tonnes (-23.5 per cent) and ferrous metal 0.342 million tonnes (44 per cent).

The commodities which saw the biggest fall in volume, wood and wood products should be mentioned: the decline being from 404 thousand tonnes to 144 thousand tonnes (-65 per cent), non-ferrous metal from 233 thousand tonnes to 98 thousand tonnes (-58 per cent) and grain from 216 thousand tonnes to 28 thousand tonnes (-87 per cent).

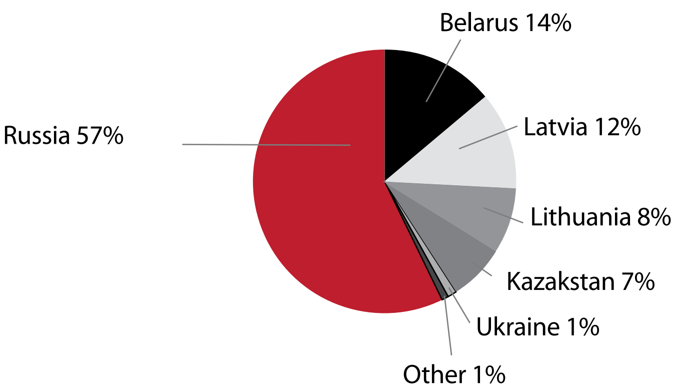
Freight volumes of EVR Cargo by commodities in 2009



The most important import partners were Russia with 56 per cent of all imported goods (3.9 million tonnes), Belarus with 14 per cent (1.02 million tonnes), Latvia with 12 per cent (0.84 million tonnes), Lithuania with 8 per cent (0.58 million tonnes) and Kazakhstan with 7 per cent (0.53 million tonnes).

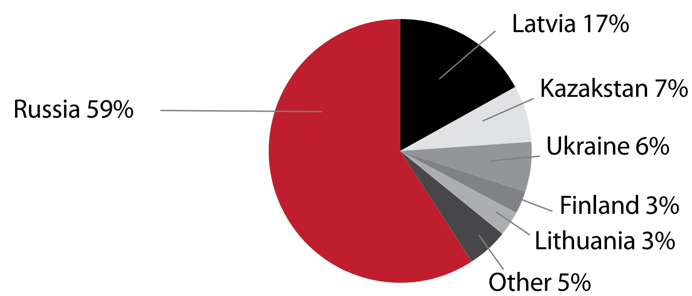
As for imported commodities, the biggest decline compared to the same period of the year before was for goods imported from Belarus (-1.04 million tonnes), Kazakhstan (-0.63 million tonnes) and Lithuania (-0.169 million tonnes). The most increasing was the volume of the goods imported from Russia, with an additional 1.66 million tonnes compared with that in 2008. Compared with the year before, the total import decreased to 0.609 million tonnes, i.e. 8 per cent.

Countries of origin of the transportation services of EVR Cargo in 2009



The biggest proportion of exported goods, 628 000tonnes, was transported to Russia, amounting 60 per cent of the export total. That was followed by Latvia with 177 000 tonnes (17 per cent), Kazakhstan with 70 000 tonnes (7 per cent), the Ukraine with 61 000 tonnes (6 per cent) and Finland with 27 000 (3 per cent) tonnes. The average export decline was 34 per cent in volume for most of the countries. An exception to this was Finland; exports there actually saw a nearly three-fold increase.

Countries of destination of transportation services of EVR Cargo 2009



Containerised freight

The cooling down of the global economy affected containerised freight as well. In 2009, the volume of railroad containerised freight was 16 051 TEUs (conditional units), i.e. 24 per cent less than in 2008.

As for 2009, the operation of the Moscow container trains was a great success as it was possible to dispatch at least one full container train per week. A total of 56 container trains were sent to Moscow in 2009.

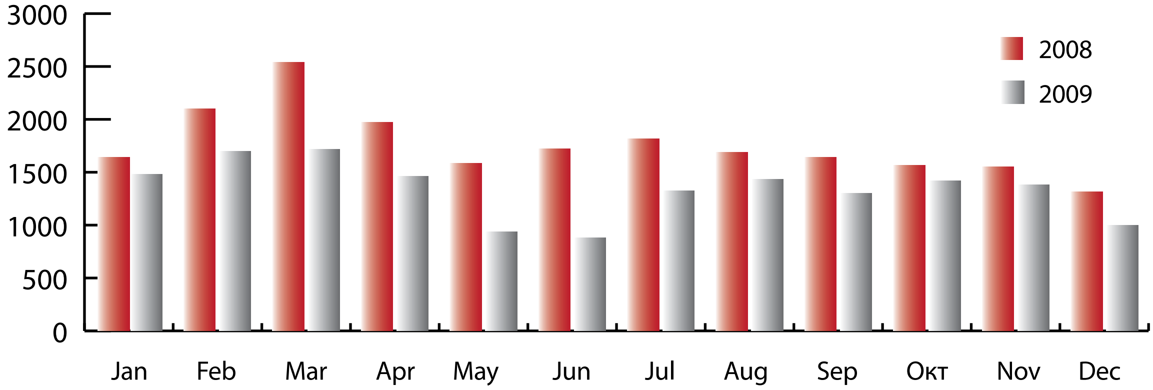
Container trains

Baltic Transit – a regular container train to Central Asia, operating from 2003. It is a joint project involving Estonian, Latvian, Lithuanian, Russian, Kazakh and Uzbek rail companies. Operation of this train is based on the collection of rail shipments from the rail companies of all three Baltic countries into one container train. The train is operated by Fesco Integrated Transport (FIT). It provides an opportunity for daily container shipments from Estonia to Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan and Tajikistan.

Moscow Express – a regular container train, operating from 2007, to the Oktyabrskaya Tovarnaya freight station in Moscow. It is designed to provide fast and efficient container transportation service from Tallinn to Moscow. In 2009, we dispatched an average of 1-2 trains a week and for future years, EVR Cargo considers it one of its flagship trains, having remarkable potential for the future.

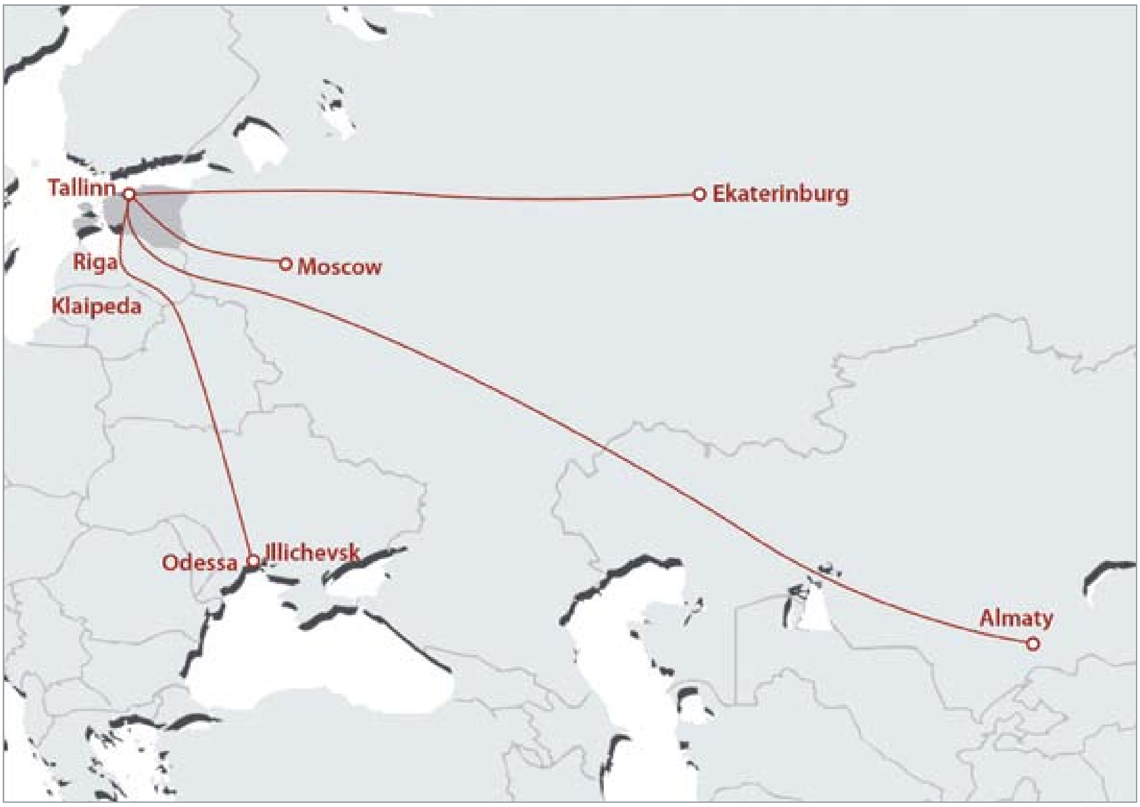
ZUBR – container train on the return route of Tallinn – Riga – Minsk – Illichevsk/Odessa operating from 2009. An option to extend the route over the Black Sea to the Caucasus, Turkey, etc. It is a joint project of Estonian, Latvian, Belarusian and Ukrainian railway companies. Special discount tariffs are applicable to container transport on this train. The train is operated in Estonia by SIA Rail Livonia, a subsidiary of EVR Cargo. The train provides an opportunity for daily container shipments.

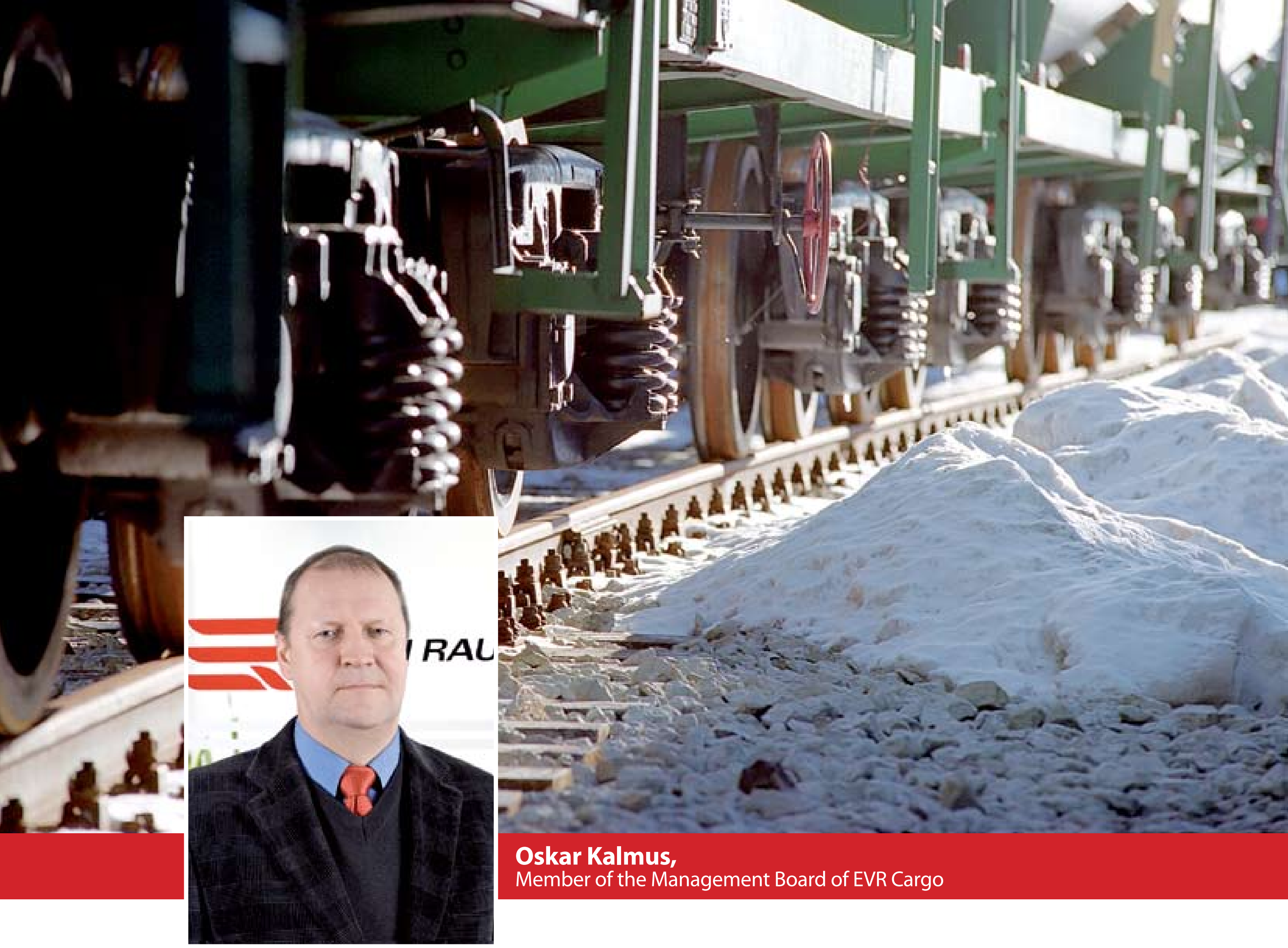
Container freight volumes of EVR Cargo (TEU) *



**Note: 2008 AS Eesti Raudtee; 2009 AS EVR Cargo*

Main routes of conteinerised freight





Oskar Kalmus,
Member of the Management Board of EVR Cargo

Rolling stock

The Rolling Stock Service consists of the Locomotive Department, Wagon Department, and Tapa Depots.

Locomotive Department

The Locomotive Department comprises Muuga Depot and Tartu locomotive repair workshop. In 2009, Muuga depot provided mostly maintenance work and repair of type C-36 locomotives. Tartu locomotive repair workshop provided maintenance work and repair of 2TE116 locomotives.

Locomotive fleet of EVR Cargo as of 31.12.2009

Type of locomotive	Number of locomotives
C36-7i	56
ČME-3	17
2TE116	6
TOTAL	**79**

In 2009, the use of 2TE116 locomotives for servicing the Pechory-Tartu-Pechory route continued, as type C-36 locomotives were still not allowed to enter the Pechory Railway Station in Russia.

After the overhaul of 47 locomotives, the total share of overhauled locomotives in the C36-7i fleet reached 83.9 per cent.

Wagon Department

The Wagon Department includes 10 technical maintenance points, engaged in the technical inspection of trains, commercial wagon inspection at some stations, running wagon repairs and preparation of wagons for loading.

According to the contract, EVR Cargo operates and manages the wagon pool that belongs to Estonian Railways. The wagon pool contained 2 982 freight wagons as of 31 December 2009. During the year, 11 new container platforms were purchased, 408 wagons were sold and 26 wagons were written off.

Freight wagon pool (number of wagons)

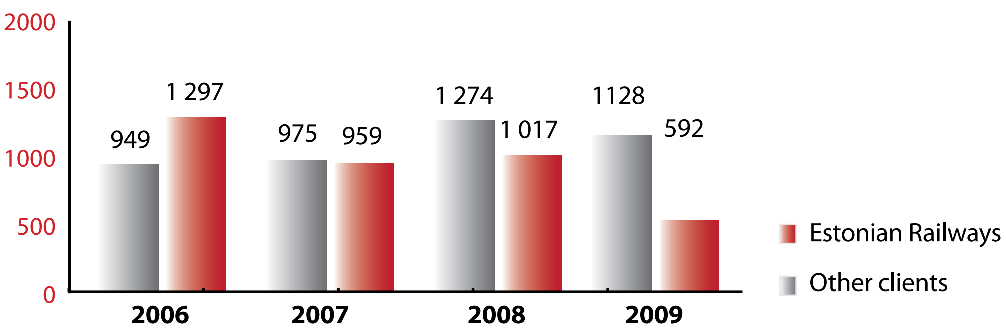
Wagon type	As of 31.12.2008	As of 31.12.2009
Box cars	419	415
Flat cars	167	164
Gondola cars	1 212	1 195
Tank cars	655	253
Isothermal cars	14	14
Grain hoppers	75	75
Cement hoppers	68	68
Container flats	611	622
Fertilizer hoppers	100	100
Hoppers-batchers	60	60
Other	24	16
Total	**3 405**	**2 982**

Tapa Depots

Tapa Depots have been a part of the Rolling Stock Service as a structural unit. In 2009, the Tapa Depots upgraded from the ISO 9001:2000 quality management certificate to the ISO 9001:2008 version.

In 2009, a total number of 1 729 wagons were repaired in the depots; preplanned and unplanned maintenance work of locomotives was successfully completed.

Wagon repair volumes by years



Main investments

Total investment at the Locomotive Department in 2009 amounted to 1.9 million EEK, of which the capital repair of the ČME3 locomotive constituted 1.3 million EEK and the instalment of the fuel monitoring system cost 0.6 million EEK.

Investments in the Wagon Department amounted to 5.6 million EEK of which the design work and construction of the wagon washing plant at Ülemiste station cost 5.3 million EEK.

A total of 10.6 million EEK was invested in the Tapa Depots in 2009, of which 8.5 million EEK was spent on purchasing the equipment for improving the efficiency and quality of the rolling stock repair and maintenance works and about 2 million EEK on changing the wheelsets of the type C-36 locomotives.

Arvo Smiltinš,
Member of the Management Board, Director of Infrastructure

Infrastructure Management

AS EVR Infra, was established on 14 January 2009 to take over all the infrastructure-related rights and obligations of Eesti Raudtee upon the division of the latter, a special subsidiary company concerning infrastructure management.

The first year was certainly stressful for the new company and its employees; in addition to regular daily work, they had to adapt to the changed legal status and the resulting new situation.

Even though attempts were made during preparation of the division of Eesti Raudtee to anticipate potential problems and maintain the efficiency of the activities of the Group, fate still provided some surprises.

Looking back on 2009, we can say that the entire Group and EVR Infra have successfully managed the situation. We were able to remain a reliable partner for our cooperation partners and customers and a sensible sister company and affiliate for other companies of the Group.

2009 will be remembered for unprecedented investments in the rail infrastructure. This was made possible by the support of the European Union and we would like to thank the Ministry of Economic Affairs and Communications for their comprehensive support and assistance with application and reporting procedures, which were somewhat unfamiliar to us.

The expected investments and work volumes in 2010 will be even higher than in the previous year.

The family of EVR Infra will make every effort to ensure the safe and stable operation of the railway, reliability of power, communication and traffic control systems, and the maintenance of buildings, facilities and railway territories.

Track Renewal

Design documentation

Employees of the Track Projects Team of the Renewal Department prepared design documents for all repair objects of 2009, with a total scope of 60.5 km of track and replacement of 21 switches. Designs were approved and technical specifications were issued for 190 objects.

Main repair projects

Repair works on the route of Rail Baltica were performed in 2009 in the framework of two projects.

"Reconstruction of railroads on the Rail Baltica route (Tallinn-Tartu section)"

85 per cent of project is co-financed by the European Cohesion Fund.

The project covers supply of materials for the superstructure, as well as major track repairs, including replacement of the entire railway superstructure (ballast, rails, sleepers), widening of the track bed and increasing the load capacity where necessary, replacement of switches, repairs to crossings, establishment or cleaning of drainage facilities.

The superstructure will be renovated, using granite gravel, reinforced concrete sleepers with elastic rail fastenings, and long rails.

In the course of switch replacement, the new switches will be installed and welded on to hardwood beams.

The cleaning of the track ballast will involve replacement of defective sleepers, screening of ballast, addition of granite gravel, repair of crossings and cleaning of drainage facilities.

The works will result in a track with low levels of noise and vibration, enabling the trains to achieve the planned speeds: 120 km/h for passenger trains and 80 km/h for freight trains.

The track renewal will also significantly reduce future expenditure on track maintenance.

The work on the project started in 2009 with the renewal of 17.3 km of railway on the 2nd main track in the sections Lagedi-Raasiku and Lehtse-Tapa, and 4.2 km of railway in the stations of Lagedi, Raasiku and Kehra.

"Reconstructing/upgrading the cross-border section on the Tartu-Valga railway"

The activities and goals of this project, 27 per cent co-financed from the trans-European transport network (TEN-T) programme, are the same as in the project for the Tallinn-Tartu section.

The work began in 2008 and continued in 2009 with major repairs on sections between Tartu-Ropka-Nõe and Sangaste-Valga, including 28.5 km of main track at the Ropka, Puka, Keeni and Sangaste stations. A further 5.2 km of track was overhauled at the Ropka, Nõo, Elva and Sangaste stations.

11 switches were replaced and ballast was cleaned on 18.8 km of the section between Palupera-Puka-Keeni. 5.2 km of track was upgraded in the station of Valga and nine switches were replaced.

Routine track maintenance in 2009

The purpose of routine maintenance is to achieve and maintain safety of train traffic at established speeds.

The plans include major repairs of four crossings, machine-tamping of 52 km of rail, machine-tamping of 52 switches, replacement of 9 233 wooden sleepers, and replacement of 1 608 switch beams.

Track Department

EVR Infra is divided into three track districts; each district includes four track masters and four maintenance crews.

From 2004, all track masters have Ford-250 trucks with hi-rail equipment enabling driving on rails and a power supply system for hydraulic tools.

These trucks are used for track inspections and repair of dangerous faults discovered during inspections.

Maintenance crews have Ford-350 trucks with hi-rail equipment and tools for routine track maintenance.

In addition, each maintenance district has a Sisu E11 hi-rail heavy truck, which is used to transport materials and install parts directly into the track.

These trucks have high-capacity cranes with auxiliary equipment for earth-moving (bucket) and their load bins enable to transport rails of up to 12 m, sleepers and switch components.

The Track Department also has a ballast leveller and a tractor for cutting scrubs around the railway. In addition, a further Ford-250 hi-rail truck for rail lubrication is to service all track districts.

Two crews are conducting ultrasound inspections of rails on the network of the Track Department.

The Track Department also organises preparation of design documents for bridge repairs. The task of maintaining bridges and culverts is divided between two bridge crews. The bridge crew has acquired independent practical experience with installation of metal culverts for small bridges.

Communications and Signalling Department

In 2009, the Communications and Signalling Department focused primarily on upgrading the telecommunications systems on the Tartu-Valga line and renovating the automated signalling systems on crossings. The communications trunk on the Tartu-Valga line was upgraded on 56.7 km.

The project included upgrades to physical connections and installation of a fibre optic trunk between all stations of the said line.

Network extensions were also made in the stations of the Tartu-Tapa line.

In 2009, the Department procured a modern server to control the Hot-Box system and, by the end of the year, all measuring points were connected to the server through an Ethernet network.

According to the plan for the renovation of crossings, new CJ1 type crossing signalling systems were installed on 13 crossings.

In addition, a new crossings monitoring server was launched to process cases on crossings by device groups.

Systematic ordering of the archived data will enable the creation of an intelligent fault locator and a dynamic archive of crossing time constants, which will make it possible to identify any potential faults preventively in a short period of time and to set up the crossings quickly according to the speed of trains and local conditions.

Studies into the possibility of a new GSM-R architecture for the radio system commenced in accordance with the business plan of Eesti Raudtee in order to map the future technical requirements of AS EVR Infra.

Equipment specifications will also be drawn up for upgrading the on-board systems of the operators, in consideration of the existing and maximum capacity and taking into account the needs of the passenger and freight transport operators using the EVR infrastructure.

This project runs until April 2010.

Improvement of automated signalling systems on crossings will continue in 2010 on the Tallinn-Tapa line where old switch drives will be replaced in the course of track repair works.

Structures Department

In 2009, the Department invested 38 million EEK in property maintenance, which is nearly 12 per cent higher than for the previous year.

The main investments in 2009 included:

- Ülemiste "Gats" post, administrative/common building, construction of a new hangar and renovation of the old hangar;
- Construction of rain water drainage for the communications building in Tartu, and ground maintenance works around the building at Riia 43 and 43b;
- Asphalt-laying in the stations of Muuga and Maardu;
- Renovation of ten waiting platforms on the Keila-Paldiski and Riisipere-Keila-Tallinn lines.

9.2 million EEK was spent in the regions on repair works and elimination of emergencies, and nearly one million was spent on the demolition of unnecessary buildings and facilities.

The Structures Department organised extensive maintenance and renovation of heating systems: renovation of the heating system of the Tartu workshop; installation of a new boiler in the Võru boiler plant; renovation of the Valga boiler plant; reconstruction of the boiler plant in Tapa, construction of a heating unit and pipe insulation; replacement of a fuel tank in Kadrina; design and construction of a new heating system in Püssi; installation of modern energy-saving air source heat pumps in the boiler plant at the Ülemiste station.

In addition, a water treatment unit was installed in Tartu and sewerage and water supply pipes were renovated and new hydrants were installed at the Muuga station.

623 800 EEK were invested in construction geodetic studies. The rights of superficies were established for 270 hectares of railway land. Personal rights of use of immovable property for a charge were established through 42 transactions, covering 6.5 hectares of land. 119 hectares of state land were registered with the Cadastre of the Land Board.

Power Supply Networks

The maintenance and repair works on the haulage plant, haulage substations and power distribution network, carried out in 2009, resulted in a lower number of disturbances in train traffic and increased the reliability of power supply. The number of faults in electrical equipment decreased by 11 per cent in comparison to the previous year.

The rating of the condition of the haulage plant according to measurement results was 22.7 points, which is a good result in the light of the standard requirements.

Empower AS completed, in 2009, the construction of the 20 kV distribution network and four transformer substations in the Koidula border station, as well as the installation of 32 floodlight masts with supply lines.

A total of 44.1 km of 10 kV automatic interlocking and reserve lines were renovated on the Tallinn-Ülemiste, Rakvere-Vaeküla, Rakke-Vägeva-Pedja and Antsla-Sõmerpalu sections. 63 line disconnecting switches were upgraded.

Work continued on replacing the unreliable 10 kV oil switches in transformer substations with environment-friendly vacuum switches. Six switches were replaced in the transformer substations of Tallinn, Ülemiste and Muuga; relay protection devices were upgraded in five transformer substations.

Switch heating equipment was reconstructed on a total of 22 switches in the stations of Kadrina, Vaeküla, Kabala and Kiviõli, as well as on the Ülemiste-Maardu and Laagri-Saue sections, and electrical heating was installed on four switches in the Pääsküla station. This will reduce the power consumption by 30 per cent and will enable continuous monitoring of the working order by the energy dispatcher.

Obsolete controllers were replaced in the Narva station and an additional communications server was installed in the control centre to expand the capabilities of the SCADA remote control system and to enable remote reading of power consumption and network parameters.

Maintenance of distribution networks and external lighting equipment together with automation of switch heating equipment enabled to use 2 per cent less electricity in 2009 than in 2008.

New equipment was procured in 2009 to improve the productivity and safety of line works and boost the efficiency of monitoring of the haulage plant condition.

Supplies

In 2009, the Supplying Department purchased materials for railway superstructure for a total of 383.3 million EEK from 33 suppliers. Corus Rail (rails), Swetrak (reinforced concrete sleepers) and Rudus (granite gravel) were the major suppliers.

The Department invested 2.6 million EEK in upgrading the trestle cranes.

Environmental Protection

Environmental issues have become increasingly important for businesses and organisations in recent years. There is a general understanding that economic development needs to go hand in hand with environmental protection and social responsibility.

Environmental protection does not mean only a minimum level of compliance with Estonian legislation. It should go beyond mere compliance and lead to an active commitment to the environment.

EVR Infra continues to raise environmental awareness among its employees, customers and suppliers.

Social Involvement

Eesti Raudtee has worked in the Estonian Association for Environmental Management from 2005 as a founding and active member of the organisation. In 2006, we were represented on the management board of the Association for Environmental Management and we contributed to the work of the Association in 2009 as well.

The Association brings together enterprises, organisations and individuals, who need support and information related to corporate environmental management and control to reduce the impact of the business on the environment and to ensure sustainable development of society.

Hazardous Waste

Pursuant to the Waste Act, we are required to transfer the waste, generated through our activities, to an undertaking that holds a hazardous waste handling licence. In 2009, we ordered the hazardous waste handling services from AS Ragn Sells in Northern Estonia, from BAO Ohtlikud Jäätmed in Eastern Estoniam and from OÜ Epler & Lorenz in Southern Estonia.

The largest problems have been associated with old and unusable sleepers, classified as hazardous waste according to an EU directive, which makes proper disposal extremely expensive. In 2009, our technology for proper disposal of sleepers was recognised as the best example of environmental work.

Koidula railway border station

In 2009, construction of the railway border station at the Koidula border checkpoint reached large-scale proportions, becoming one of the largest infrastructure development projects in Estonia.

The construction of the Koidula railway border station begun on March 17, 2008. The size of the development area constitutes 92 hectares (0.36 square miles) and the station accommodates 10 rail tracks. The station complex, to be completed by July 1, 2011, includes a total of 25.5 km (15.84 miles) of tracks, station and office buildings, a customs and veterinary warehouse and a railway repair workshop.

The station connects the main railway lines of Valga and Tartu within the territory of Estonia. Furthermore, the new station will improve trade logistics between Estonia and Russia. It should also be mentioned that the establishment of a new transport link on the St. Petersburg-Latvia-Kaliningrad route cannot be underestimated.

The project cost is roughly 1 billion kroons and it is funded by the Estonian State, AS Eesti Raudtee and Riigi Kinnisvara AS.

In addition to modern conditions for the inspection of goods on the border, the station will create the conditions necessary for the development of container freight and freight consisting of products of animal and vegetable origin, such as goods that require plant health control. The Koidula border station is suitable for freight of all types of goods that are transported via rail. The new border station has a capacity of up to 29 pairs of trains per 24 hours.

Sergei Fedorenko,
Member of the Management Board, Director of Traffic

Operating the railway infrastructure

The railway infrastructure of AS EVR Infra was used by nine rail transport undertakings in 2009, including passenger transport operators Elektriraudtee AS, Edelaraudtee AS, AS GoRail and AS Pasažieru Vilciens, and freight carriage operators AS E.R.S., Westgate Transport OÜ and AS EVR Infra. Westgate Transport OÜ terminated its railway operations in the first half of 2009.

An average of 17.7 freight trains was received daily in 2009 using the infrastructure of EVR Infra at the state border. The number of freight trains delivered daily at the border averaged 17.4.

Due to the changes in the freight market, the number of freight trains received and delivered at the border daily increased by 1.2 on average.

In 2009, the traffic of regular container trains continued via EVR Infra's network. 56 container trains were sent to Moscow. The average cycle of trains was nine days.

In 2009, the cycle of wagons within the pool in normal working conditions was 3.93 days and the domestic cycle of wagons was 1.13 days.

During the year, the transportation service concluded 135 contracts with customers for the organisation of the provision and delivery of wagons, the connections with other railway infrastructures, and shunting services.

In 2009, the regulative documentation of the company that considers the organization of work of the station workers of EVR Infra was updated. The most important among the aforementioned documents are the new forms concerning station technical administration acts and the accompanying guidelines, the new arrangement of crossing the border between railway infrastructures and performing shunting work as well as for ensuring road safety on the railway of another company's holding.

On working days, the railway infrastructure of EVR Infra was used by 48 pairs of electric trains daily for passenger service, plus 11 pairs of diesel trains and 1 pair of international passenger trains, carrying altogether 5.12 million national passengers and 0.155 million international passengers throughout the year of 2009.

The repair works on the Tartu-Valga-Tartu railway line were finished in 2009, ending the one year and nine month-long break in passenger transportation.

Elma Mustonen,
Head of the Foreign Relations Department of Estonian Railways

International relations

The priorities of Estonian Railways in international relations in 2009 were as follows:

- international agreements-related activities;
- participation in international railway organisations;
- development of bilateral relations with railway networks in neighbouring countries;
- provision of assistance in obtaining visas and crossing borders;
- arranging business trips to foreign countries for the employees of Estonian Railways;
- the work of the Moscow Office and cooperation with the offices of other railways.

In 2009, Estonian Railways signed two international agreements:

- An agreement concerning the joint use of locomotives and crews for servicing the trains and conducting mutual settlements, entered into on the 5 June, 2009 between Russian Railways and Estonian Railways;
- A procedure agreement with Latvian Railways on the operation and maintenance of telecommunications, signalling, centralization equipment and blocking equipment was entered into on the 19 of June, 2009.

In 2009, a joint working group of Russian Railways and Estonian Railways prepared an Agreement on Railway Cooperation Between Enterprises. The Cooperation Agreement was signed at the beginning of 2010.

Special attention was given to the international railway organisations, in which Estonian Railways is a member. We set ourselves the goal of developing acceptable freight transport terms and regulations, and to protect the rights of ourselves and our customers in the international railway transportation process.

Representatives of Estonian Railways participated in the work of the International Union of Railways (UIC), including the general assembly of the organisation.

We continued our active work in the Community of European Railways (CER) and took part in the events organised by this organisation, including the general assembly. In 2009, we continued the preparations for the implementation of the Directives of the European Union, developed the cooperation with other railway companies in the European Union, targeted at common interests to maintain the competitiveness of the railway both in carriage of goods and passengers.

Within the framework of the activities of the Organisation for the Cooperation of Railways (OSJD), our representatives participated in the analysis of railway networks with 1435 and 1520/1524 mm width railway tracks of both the European member states and non-member states.

Estonian Railways continued its activities in the Railways Cooperation Organisation (OSJD) according to the plan that was approved with our participation at the 24th Conference of Directors General (held from 20 to 24 April, 2009 in Moscow). The 24th Conference of Directors General decided to continue the work on updating the basic documents of OSJD, agreed at the 2006 meeting of the transport ministers of the Member States in charge of the transport sector. Furthermore the representative of the Ministry of Economic Affairs and Communications participated in the work of the working group created for this purpose. He participated in three sessions of the working group.

Two sessions of the Railway Transport Council of the CIS Countries, Latvia, Lithuania, Estonia and Bulgaria were held last year: the 50th session on 21-22 May, in Minsk and the 51st session on 27-28 October in Tashkent. The issues discussed at the Council sessions included the improvement of the common procedure for the disposal and maintenance of the wagon and container pool, mutual settlements for the wagons and containers, as well as common research and technology policy in the area of railway transport and the economic activities of the railways being the members of the Railway Transport Council. Estonian Railways participated on the basis of the respective power of attorney for discussing some of the issues falling within the competence of the Ministry of Economic Affairs and Communications.

Between the sessions of the Railway Transport Council several expert meetings were held in order to accomplish the tasks assigned by the Railway Transport Council and to prepare new resolutions according to the schedule of the meetings approved by the Directorate of the Railway Transport Council. The work performed for the execution of resolutions of the Railway Transport Council took place according to the plan of approved measure. Experts of Estonian Railways participated actively in the meetings and most of the proposals made by them were reflected in the approved resolutions.

A meeting of the working group dealing with operative and statistical reporting was held in Estonia 15-17, July, 2009, under the auspices of the Railway Transport Council.

Due to the fact that one of the priorities of Estonian Railways is the development of containerized freight, Kaido Simmermann, Chairman of Management Board -Managing Director participated in the work of the 18th session of the Coordination Council of Trans-Siberian Transport (CCTT). One of the main issues discussed in the CCTT meetings was increasing the number of containerised freight moving via a west-east-west connection and improving the competitive position of the Trans-Siberian railway.

As a member of the tariff agreement of the CIS countries, Estonian Railways' delegation took part in the 17th tariff conference held 20-22 October in Almaty. In the course of the Conference, the tariff policy for the members of the railways tariff agreement was established for the year of 2010.

Mutual contacts with the management of Russian Railways continued. At the meeting of Kaido Simmermann, Chairman of the Management Board-Managing Director and Vladimir Yakunin, the President of Russian Railways, a decision was made to set up a bilateral working group to promote cooperation between the companies. On behalf of Estonian Railways, Kaido Simmermann was elected as a Co-Chairman and on behalf of Russian Railways VP Vjatsheslav Lemeshko was elected as a Co-Chairman.

The main task of the working group is to prepare an agreement between the companies, and for this purpose, three meetings of the working group were held (2-3, April, 2009 and 21-22 January, 2010 in Tallinn and 21-23 December, 2009 in Moscow).

The efforts of the working group resulted in the signing of both prepared agreements, one of these in July, 2009 and the other in February, 2010.

The working group is continuing its work in 2010, focusing on the preparation of operation technologies and smooth launching of Koidula-Petseri Railway Border Crossing Point in the second half of 2011.

During the year, several meetings took place between the Heads of the Foreign Relations Departments of Estonian and Russian Railways (including October Railway) in order to discuss current issues. The meetings took place in the framework of joint events or within the meetings specially arranged for the specific purposes.

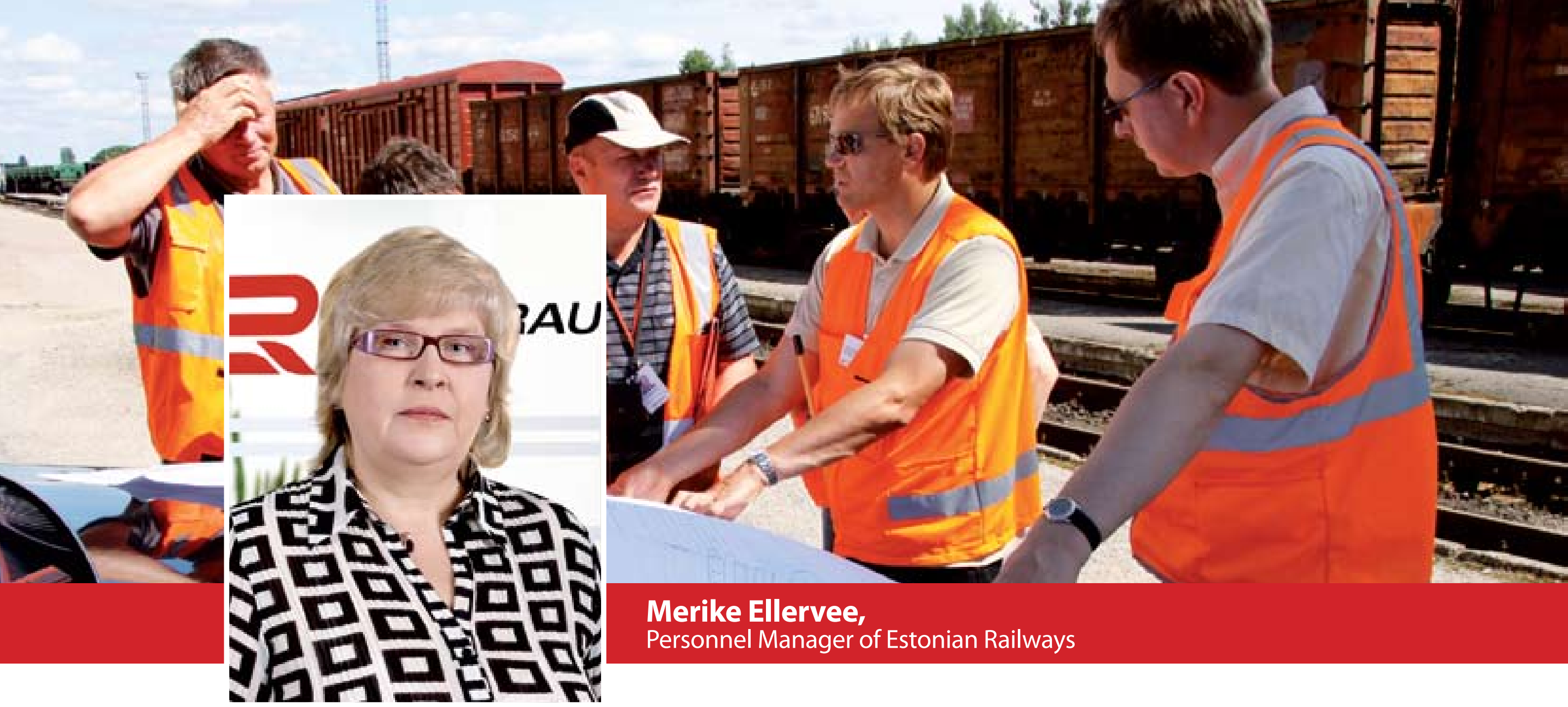
Along with the Port of Tallinn, Estonian Railways took part in the TRANSRUSSIA 2009 transport exhibition and conference.

We also took part in the TRANSKAZAKHSTAN 2009 transport exhibition, which was held in the formeer capital, Almaty.

Our delegations participated in the third international business forum of railway "Strategic partnership 1520" which took place 20-22 May in Sochi. During the last months of 2009, Estonian Railways was busy with preparations of the international business forum of railway "Strategic partnership 1520" which took place in Tallinn in February 2010.

In November, 2009, the Moscow Office of Estonian Railways celebrated the tenth anniversary of its opening. Through the years the office has been making real efforts to improve the accommodation and working conditions of the employees of Estonian Railways on their business trips or in passing as well as working on the formalization of their visas.

Active cooperation between the Moscow Office of Estonian Railways and Russian Railways and the Directorate of the Railway Transport Council continued in 2009, as well as with the major Russian companies (Eurosib, Rostransavto, Russki Alumini, Mezhdunarodnaja Transportnaja Kompanija, Transkonteiner, Transgroup etc) for increasing the number of containers and other goods as transit via Estonian Railways and the Port of Tallinn. The Moscow Office has organised several meetings between the managements of Estonian Railways and OAO Russian Railways for discussing the current situation on Russian, CIS and Estonian railways.



Merike Ellervee,
Personnel Manager of Estonian Railways

Personnel

Estonian Railways employed 1 821 people as of 1 January 2009. The number of employees decreased by 128 during the year and reached 1 693 by 1 January 2010. The fall in the number of employees was largely as a result of the decline in freight volume, forcing the Company to reduce the number of employees by 110 people.

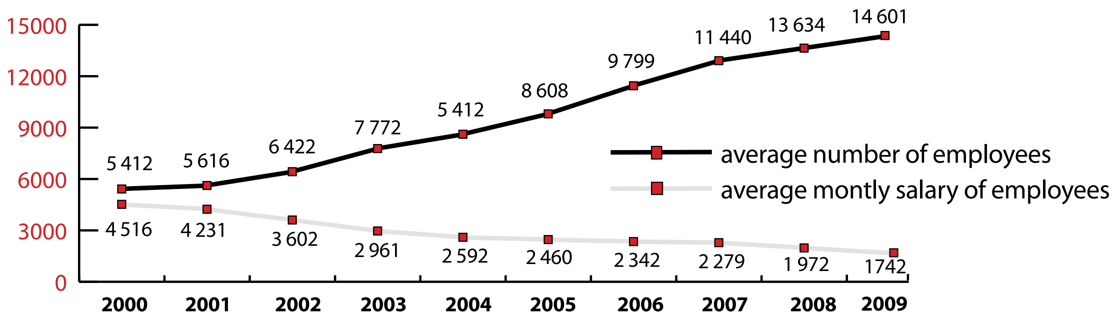
As of 1 January 2009, the average age of the employees of Estonian Railways was 46.6 years and the average length of service was 18 years. The proportion of men in the overall number of employees was 61.6%. 1 108 employees of Estonian Railways belonged in the 19-49 year old age group and 556 people were 50-59 years old.

The average number of employees in 2009 was 1 742 and their average monthly salary was 14 601 EEK. The average monthly salary increased by 967 EEK when compared with the previous year. In 2009, the salary was affected by meeting the beneficial criteria of the EBITA-based bonus system for the work performance in 2008.

The average number of employees decreased by 2 672 between 2000 and 2009 and the average salary increased by 9 189 EEK.

Staff training and development activities focused mainly on the improvement of professional knowledge and skills.

Long service employees of the company, who have worked for the company for 10, 20, 30, 40, 50 and 60 years, are remembered on 5 November, the anniversary of Estonian Railways. The statute of Estonian Railways employee pin of honour has been developed and approved. Estonian Railway employee pins of honour and certificates were awarded to 268 employees at the ceremony held on 5 November 2009. It was a memorable event motivating other employees to also become long-serving employees. Estonian Railways initiated the mentioned tradition in the year of 2006.



Ivan Kappanen,
Safety Director of Estonian Railways

Safety

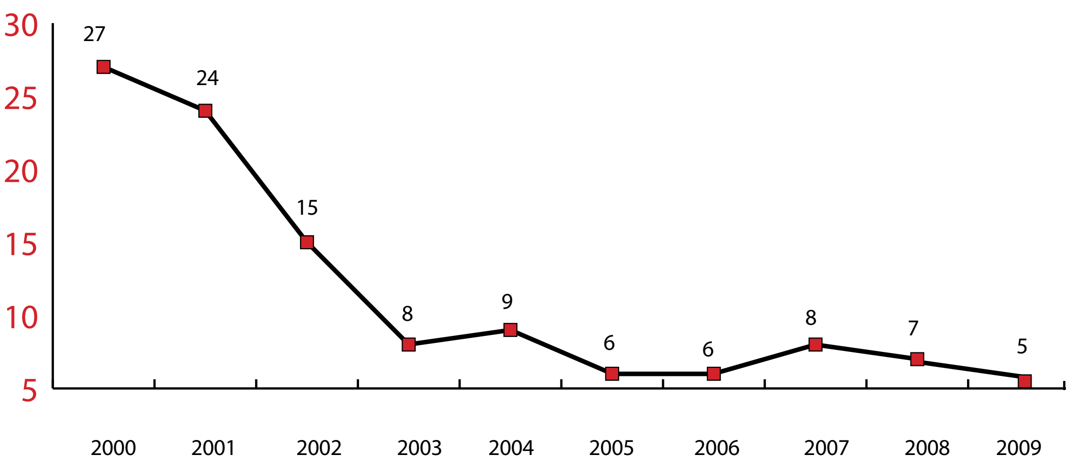
The year 2009 has seen a significant restructuring process, including the creation and launch of two new enterprises: EVR Infra and EVR Cargo. As a result the regulation of safety issues has continued to be a concern in 2009.

The Safety Committee of AS Eesti Raudtee has reviewed its safety indicators and deemed the safety situation satisfactory.

There were no accidents that caused potential emergencies in 2009, meaning that there were no major fires, leaks, collisions with serious consequences or any other such accidents.

The number of personal injuries in 2009 was the lowest of the decade. However, AS EVR Cargo's Tapa Depots continued to be a problem: four of the five personal injuries occurred there.

Personal injuries in 2000–2009.



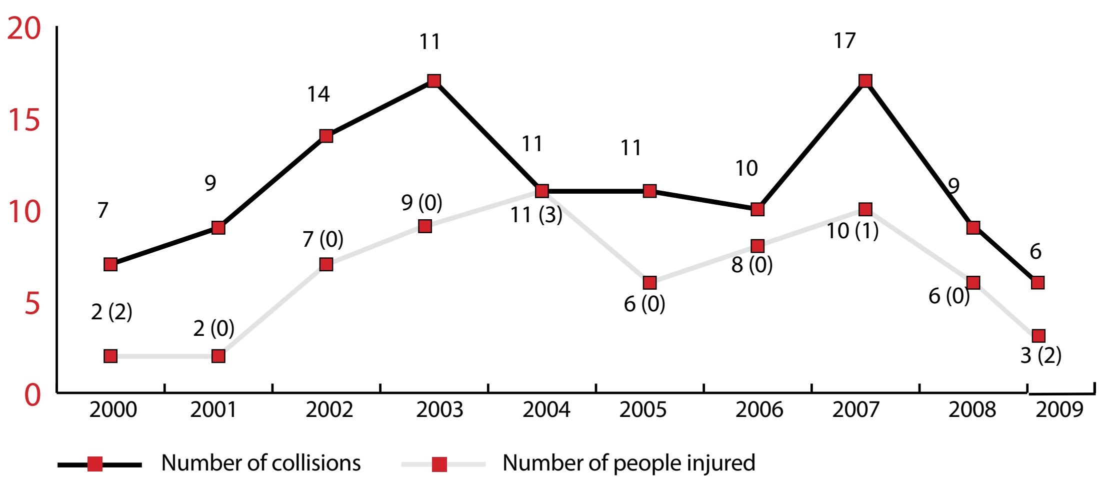
Personal injuries and the number of working days lost

	2008	2009
Personal injuries	7	5
Working days lost	321	165
Frequency coefficient (calculated for 200 000 human hours)	0,381	0,317

The majority of injuries were minor: only one injury was considered medically serious.

There were fewer railway traffic accidents in 2009 than in 2008. All railway traffic incidents in 2009 were level crossing collisions, two of which were level 1 railway traffic accidents (there had been no level 1 accidents in 2008), resulting in fatalities. The collisions did not cause any major damages to railway infrastructure and rail vehicles.

Level crossing collisions in 2000–2009.



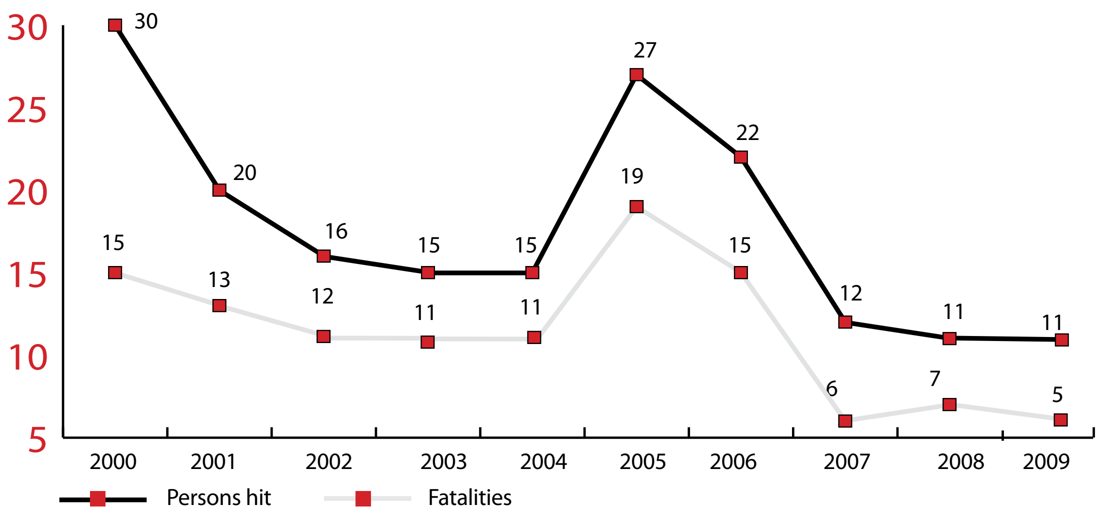
Traffic safety indicators

	2005	2006	2007	2008	2009
1st degree railway traffic accidents	**-**	**-**	**3**	**-**	**2**
incl. collisions on crossings	-	-	3	-	2
2nd degree railway traffic accidents	**13**	**11**	**17**	**11**	**4**
incl. collisions on crossings	11	10	14	9	4
Railway emergencies	**3**	**4**	**2**	**3**	**2**
Railway incidents	**56**	**65**	**44**	**40**	**61**
incl. incidents caused by others	17	8	10	13	10
Persons hit	**27**	**22**	**12**	**11**	**11**
Number of persons injured	8	8	5	4	6
Number of fatalities	19	15	6	7	5
Number of persons injured (persons hit + collisions)	**33**	**31**	**21**	**17**	**14**
incl. fatalities	19	15	7	7	7

The number of railway incidents has increased, mostly due to a rising number of rail fractures and engine failures in trains. Rail fractures can be attributed to the fact that the rails in use, of Russian origin, are becoming obsolete and financial resources have to be found for their replacement.

In autumn of 2009, the issue of theft of communications and safety equipment on the railway infrastructure of EVR Infra arose. Traffic control devices on the railway infrastructure were vandalized for the purpose of metal theft. This caused railway stoppages, failures in the automated signaling equipment and barriers, and disturbances in the carriage of passengers occurred. Several anti-theft measures have been introduced, hopefully leading to positive results.

Persons hit in 2000–2009.



Whereas collisions have occurred in the same locations as in previous years, the geographical scope of collisions spread in 2009. It is exceptional that in 2009 the majority of persons hit by rolling stock were young people – a fact for which there is no clear reason. In September of 2009, for example, two drunken brothers had a bet who would be the last one to jump off the tracks in front of an approaching train. This game resulted in the death of one of the brothers.

As goods carried by rail include those of a dangerous nature, it is unthinkable that Eesti Raudtee Group will reduce its attention on the prevention of accidents concerning dangerous goods, the timely reaction to accidents which have occurred, and the neutralization of accident damage. The key activities in this field in 2009 are as follows:

- Training of employees in regional rescue centers (Northern, Eastern, Western and Southern) was completed;
- Pursuant to the now-completed cooperation agreement between the Southern Estonian Rescue Center, City Government of Tartu, and Eesti Raudtee, an early warning system was installed in the Tartu reception yard;
- Preparations for in-house exercises of operational duty officers of the Northern Estonian Rescue Center (simulation in the Mustjõe-Vikipalu area of a train accident occurring in Latvia);
- Training day in Väike-Maarja on railways was organized for the students of the Estonian Public Service Academy;

- Development of the second stage and a cooperative environment (between rescue services, emergency medical care, the police and railway) in the Estonian Public Service Academy's simulation center (EU project "Safe and Secure");
- Cooperation with Tallinn University of Technology concerning problems with Eesti Gaas;
- Preparation for the completion and analysis of the county-wide "Collapse of a Viaduct" training exercise in cooperation with the Eastern Estonian Rescue Center, Ida-Viru County Government and the Jõhvi Municipality Government;
- Participation in the application of risk assessment methodology of transport developed by the European Commission;
- Preparations for meeting the new requirements of the amended Emergency Preparedness Act (risk analysis of vitally important sectors and emergency response plan).

After reorganizing Eesti Raudtee into three independent enterprises, it has become more difficult to perform railway-related activities prescribed by agreements with and obligations to the CIS countries, within the Eesti Raudtee concern. The agreements and normative documents were audited and new ones were drafted. Simultaneously, pursuant to the Rail Transport Council's decision, the railway system of the CIS countries is being reformed. This led to participation in various committees, expert groups and working groups that are preparing new normative documents (standards, rules and regulations, etc.). Harmonization of EU and CIS requirements is also a part of this process.

The process of updating the safety regulation documents of the concern was continued in 2009. In October, the Estonian Technical Surveillance Authority approved changes to the EVR Infra's operating rules. The changes were made due to documents taking effect which were prepared because of the need to apply the requirements set out for the railway administration of the CIS and Baltic countries, within the infrastructure of EVR Infra.

Eesti Raudtee has made a proposal to the Estonian Technical Surveillance Authority to make amendments to the railway's technical regulations in order to provide for certain conditions where a locomotive with a single driver's compartment may service direct trains by moving backwards in front of the train. This amendment took effect in December of 2009.

Tarmo Vahemets,
Chairman of the Management Board of Operation Lifesaver Estonia

Non-profit Organisation Operation Lifesaver Estonia

2009 was a successful year for the "Lifesaver Estonia" ("OLE"), especially because of the ongoing support of long-term members of the non-profit organisation, including Estonian Railways, which enabled us to achieve the set goals of 2009 to a significant extent.

Last year can be considered especially successful regarding the international activities of the OLE. For the first time, we participated in the preparation and implementation of the project activities of the all-European railway safety day known as the "European Level Crossing Awareness Day" (ELCAD). The project was a real success, so that it extended to a global railway safety day or "ILCAD", already in the preparatory phase, with a number of countries all around the World participating.

We are pleased by the success our digital drawing board has met with, its application by OL Canada placing this beyond all doubt. The colouring book was developed in 2008. Here is the proof that we are not mere consumers of the methods developed by Operation Lifesaver Inc, as we are actively involved in the development process of new commercial and training materials. In Washington last August we updated our cooperation agreement with Operation Lifesaver Inc.

We participated in a number of working meetings in different European countries in order to contribute to the initiation of activities for the implementation of railway safety standards. There is no doubt that one of the top events of the last year was joining the European Road Safety Charter. Signing the Charter on the 17th of June, the OLE took specific commitments to make its practices in the railway transportation safety more effective, contributing to bringing down the number of people who perish in traffic accidents every year. Besides us, the Charter was joined by several other OLE partners, as well.

We continued our high level of cooperation with government bodies dealing with traffic safety, companies and non-profit organisations, with the objective of expanding the group of organizations involved in communicating the railway safety message. We participated in several joint events, fairs and safety days in close cooperation with local governments, the Road Administration and police prefectures. We organized four national railway safety campaigns (railway safety week, international railway safety day, summer and Christmas campaigns) in cooperation with the Association of Estonian Broadcasters, different publications and the partners of OLE.

We continued the training programmes of the presenters of OLE, arranging a two-day long training for the police officers of the Southern Police Prefecture, dealing mostly with prevention work (including the minors), eight of them succeeded in passing the test of the presenters of OLE.

We are very pleased with the grant by the Estonian Railway Culture Foundation (*Eesti Raudteekultuuri Sihtasutus*) (ERKSA) that enabled us to raise the standard of the promotion of railway safety to a completely new quality. The fair tent, purchased for a quarter of million EEK and the digital colouring books, the first of its kind to be adapted in Estonia – both projects carried out with the support of the ERKSA – direct a lot of those interested to the OLE. Those people will co-operate with us for a longer period and we are able to give them necessary knowledge.

Last year, two railway safety projects were supported by the OLE. Within the framework of the organisation, a railway exhibition was held in Tallinn in the summer, in the bus terminal of the Viru Centre. Thanks to the favourable location we had a great number of visitors. Together with the Ida-Virumaa Police Prefecture we carried out a creativity competition named "You Can!" during the last quarter of the year, targeted at the idea of encouraging the children to think about the dangers of the railway.

We were pleased with the continuing cooperation in communication and discussions concerning future-oriented action plans, although the state authorities were not able to support the activities of our organization due to their limited resources.

To conclude with, I would like to thank all the members of the organization, our partners and the presenters for their contribution to saving human lives and I would like to wish you all persistence in achieving new goals.

Recreation

Estonian Railways' Singing and Brass Music Company

Estonian Railways' Singing and Brass Music Company is a non-profit music organisation that represents and advertises Estonian Railways according to the cooperation contract.

The mixed choir was founded in summer 2003 by five employees of Estonian Railways, who were simply enthusiasts, to enable the employees of the company to have the opportunity to take part in choir activities and its outings. By autumn 2007, the brass band joined the singers and the company renamed itself a Singing and Brass Music Company. Our singers and the musicians give concerts together or separately. Their repertoire is diverse; at the joint performances we can hear train hits, as might be expected of a railway band, such as "The Old Station" by Rein Rannap and "The Light Blue Wagon" by Vladimir Shainski.

The Company has a tradition of performing at Estonian Railways' festive events and participating in the Christmas Train ride. The Company takes part in Song Festivals and Brass Band Music Festivals and presents a Spring Concert every spring. The brass band has been conducted by Arne Haasma and the mixed choir by Aivar Leštšinski since autumn 2009. The mixed choir is eager to find new exciting voice techniques to develop the natural gifts in the singers.

As expected, the 25th Song Festival in July, 2009, was the biggest event of the musicians' year. In the Song Festival Procession, the singers, dressed in national costumes, were escorted by a locomotive, decorated with an oak wreath that was followed by the management staff of Estonian Railways and the brass band drumming a marching beat behind the column. The Company is continually active: by the end of 2009, 67 concerts had been recorded in the chronicles of the Company, which is an average of 10 concerts per year throughout the six and a half years of its existence.

In 2010, the Singing and Brass Music Company is busy recording the pieces for their first audio disc and is going to contribute their music to the 140th anniversary gala in the coming autumn. In the spring of 2011, they will have their next trip abroad. The Company expects to involve more singing fans among the railway employees than has been the case up to the present in order to carry out the plans successfully.

Sports Club

The activity of the Estonian Railways Sports Club (ERSK) in 2009 was first of all aimed at the activation of the members` sporting activity and participation in various public sporting team and individual competitions. In order to achieve this goal, cooperation with a number of sports clubs and sporting organisations continued in Tallinn, Tartu, Valga, Narva, Rakvere and several communities in Läänemaa where sports facilities, used by the members of ERSK, are located. As in the previous years, swimming, aerobics, basketball, volleyball and fitness studios were the most favourable pursuits.

ERSK organized traditional friendly sports meetings in cooperation with the port of Tallinn in table tennis and a one-day multiple event athletics meet; a tour of the Kakerdja bog was also arranged for the members in the autumn of 2009 and a curling tournament was held in December. Our representatives also took part in the Latvian Railway Companies`spartakiade in July on the invitation of our colleagues there.

Members of ERSK participated in the Elion-Cup mountain bike competition series both as a team and individually and a team was also entered in the Hansapank run and ski series, Tartu Marathon and Kõrvemaa quadruplet events. The greatest number of participants took part in the Maijooks (May Run), a three-day bicycle tour called "The Green Bicycle Tour", the Tartu Bicycle Marathon and the Tallinn Autumn Run in September.

Intense cooperation was continued with Estonian Firm Sports League and the firms participating in the Cup Series, with whom the problems concerning the promotion and development of Estonian firms' sports culture were discussed. As the result, mutual agreement on the position of the necessity of an Estonian firms' sports central organization was reached. Within the framework of the firms' sports cup, ERSK members participated in the competition "Firm sport in the springtime", in go-kart racing and in light athletics competitions.

The number of members decreased in 2009 as 57 people left the club, and by the end of the year club membership stood at 295. The reduced number of members resulted mainly from the fact that the number of Estonian Railways personnel was cut — the majority of the members of ERSK are Estonian Railway employees.

In 2010, we are going to continue to provide our members with sporting opportunities, and support them in participating in public and firm sport competition series all over Estonia. But most important, ERSK aims to promote the health and physical condition of Estonian Railways personnel and their family members.

As before, our members will be compensated for up to 50 per cent of their sporting costs related to training (swimming, gym, aerobics, etc) and participating in various competitions. Sports help to strengthen the health condition of personnel and reduce their stress levels, which in turn is one of the preconditions for good work performance. Sports and recreational activities are the means of cultivating the appreciation towards one's work and we urge our employees do their best at all times. Supporting sports is one important means of motivating the employees of Estonian Railways, aimed at encouraging the initiative of employees and promoting a healthy lifestyle.

Priit Haller, Member of the Management Board and Director of Finance of Estonian Railways

Finance

On January 14, 2009 Estonian Railways Ltd. (Eesti Raudtee AS) founded a group of undertakings by dividing the company to form two new affiliates: AS EVR Infra (infrastructure management) and AS EVR Cargo (freight transport).

Within the group, the responsibilities of Estonian Railways Ltd. include personnel policy, legal counselling, foreign affairs, internal auditing, organisation of safety and security, IT services and examining for granting professions and qualifications. Further activities within the auspices of Estonian Railways Ltd. consist of issuing work permits for operating on the railway infrastructure of EVR Infra, accounting services, financial management, financial risk management, money management, insurance, public relations as well as administration related to the areas of activity of Estonian Railways Ltd.

In 2009, 25.38 million tonnes of goods were carried within the infrastructure of Estonian Railways. In 2010, the total volume of freight transport is estimated at 23 million tonnes.

By the end of the last year, two freight transport companies, including EVR Cargo, and three passenger transport companies were operating on the Estonian Railways infrastructure. In 2009, AS EVR Infra, dealing with infrastructure management, entered into three-year contracts with carriers, giving them a long-term sense of security in transport operation.

Consequently, it is continuously important for EVR Infra to make its activities more efficient and reduce the cost base of infrastructure management so that three years from now, by extending the same contract conditions, EVR Infra will still be a sustainable and competitive company.

In 2009, we invested 314.6 million in the major repairs of the Tartu-Valga railway section, of which 67.8 million EEK were co-financed by the TEN-T programme of the European Commission and the EU Structural Funds.

We invested 117.4 million EEK (176.8 million EEK from the funds) in rail reconstruction of the Rail Baltica railway line. Furthermore, we invested 27.7 million EEK (18.2 million EEK from the funds) in bringing the passenger platforms into conformity with the EU height requirements and 1.4 million EEK (0.7 million EEK from the funds) in a project concerning passenger safety.

With the support from the EU Structural Funds, EVR Infra plans to continue investing in the railway infrastructure in 2010. The principal projects are: the reconstruction work in the Rail Baltica railway line, the completion of major repairs in the Tartu-Valga railway section, brining passenger platforms into conformity with the EU height requirements and the reconstruction of passenger platforms within the project "Ensuring Passenger Safety in the Operation Area of Passenger Trains".

The total volume of scheduled investments is 780.7 million EEK, but 70 per cent is due to come from the EU Structural Funds.

In its first year of operation, EVR Cargo transported 11.01 million tonnes of goods, i.e. 43.4 per cent of total carriages on the infrastructure of Estonian Railways. Over 60 per cent of carriages comprised transit operations. EVR Cargo carried 16,000 TEU of containers.

The projected capacity of EVR Cargo is 13 million tonnes for 2010. Thus, the company is working towards guaranteed trade flows and improved efficiency in both transportation and the work of our stations. The foreseeable future will hopefully see the crisis receding, enabling the provision of a long-term tariff policy to our clients.

The Management Board`s Confirmation on Consolidated Financial Statements

The Management Board acknowledges its responsibility for the preparation of the consolidated financial statements presented on pages 6 to 45 of AS Eesti Raudtee (hereafter „Parent") and its subsidiaries (together referred to as the „Group") and confirms that:

- the accounting policies applied on the preparation of the consolidated financial statements comply with International Financial Reporting Standards (IFRS) as adopted by the European Union;
- the consolidated financial statements give a true and fair view of the financial positions, financial performance and cash flows of the Group; and
- the parent company AS Eesti Raudtee and its subsidiaries are going concerns.

Kaido Simmermann	Priit Haller
Chairman of the Management Board	Member of the Management Board

19 March 2010

Consolidated Balance Sheet

thousand Estonian kroons	Note	Year ended 31 December	
ASSETS		**2009**	**2008**
Non-current assets			
Property, plant and equipment	3	3 395 697	3 536 197
Investment property	4	4 570	6 330
Long-term financial investments		649	45
Total non-current assets		**3 400 916**	**3 542 572**
Current assets			
Non-current assets held for sale	5	3 151	3 151
Inventories	6	254 554	174 819
Trade receivables	7	161 738	147 115
Other receivables	7	110 617	62 887
Cash and cash equivalents	8	341 806	149 251
Total current assets		**871 866**	**537 223**
TOTAL ASSETS		**4 272 782**	**4 079 795**
EQUITY AND LIABILITIES			
Equity			
Share capital	9	399 067	399 067
Share premium		204 723	204 723
Statutory legal reserve	9	33 482	30 000
Non-current asset revaluation reserve	9	5 051	5 051
Retained earnings from previous periods		1 411 854	1 345 697
Profit for the period		120 422	69 639
Total equity		**2 174 599**	**2 054 177**
Non-current liabilities			
Borrowings	11	1 439 792	1 521 982
Customer advances		2 272	4 185
Provisions	12	9 788	10 848
Total non-current liabilities		**1 451 852**	**1 537 015**
Current liabilities			
Trade and other payables	13	296 539	320 205
Tax liabilities		17 265	20 230
Borrowings	11	170 949	147 135
Provisions	12	37 125	1 033
Unused government grants	21	124 453	0
Total current liabilities		**646 331**	**488 603**
Total liabilities		**2 098 183**	**2 025 618**
TOTAL EQUITY AND LIABILITIES		**4 272 782**	**4 079 795**

Consolidated Statement of Comprehensive Income

thousand Estonian kroons	Note	2009	2008
Revenue			
Net sales	14	1 516 741	1 649 914
Other operating income	14	4 419	13 545
Total revenue		**1 521 160**	**1 663 459**
OPERATING EXPENSES			
Goods, materials and services	15	369 897	522 918
Miscellaneous expenses	15	114 896	130 651
Personnel expenses		413 916	468 826
Depreciation and impairment loss	3	418 213	374 176
Other expenses	12	44 830	7 277
Total operating expenses		**1 361 752**	**1 503 848**
OPERATING PROFIT		**159 408**	**159 611**
Finance income and expenses			
Interest expenses	16	-61 481	-97 212
Other finance income	16	32 948	23 301
Other finance expenses	16	-10 453	-16 061
Total finance income and expenses		**-38 986**	**-89 972**
PROFIT BEFORE INCOME TAX		**120 422**	**69 639**
PROFIT FOR THE PERIOD		**120 422**	**69 639**
Other comprehensive income:			
Result from revaluation of hedging instruments		0	-1 128
Non-current asset revaluation reserve	4	0	5 051
Total other comprehensive income for the period		**0**	**3 923**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**120 422**	**73 562**

Consolidated Statement of Changes in Equity

thousand Estonian kroons	**Share capital**	**Share pre-mium**	**Statu-tory legal reserve**	**Hedging reserve**	**Non-cur-rent asset revaluation reserve**	**Retained earnings from previ-ous periods**	**Profit for the period**	**Total**
Balance as at 31 December 2007	**300 000**	**204 723**	**30 000**	**1 128**	**0**	**1 201 923**	**143 774**	**1 881 548**
Total compre-hensive income for the period	0	0	0	-1 128	5 051	0	69 639	73 562
Allocation of net profit to re-tained earnings	0	0	0	0	0	143 774	-143 774	0
Increase in share capital	99 067	0	0	0	0	0	0	99 067
Balance as at 31 December 2008	**399 067**	**204 723**	**30 000**	**0**	**5 051**	**1 345 697**	**69 639**	**2 054 177**
Total comprehensive income for the period	0	0	0	0	0	0	120 422	120 422
Allocation of net profit to retained earnings	0	0	0	0	0	66 157	-66 157	0
Increase in statutory legal reserve	0	0	3 482	0	0	0	-3 482	0
Balance as at 31 December 2009	**399 067**	**204 723**	**33 482**	**0**	**5 051**	**1 411 854**	**120 422**	**2 174 599**

Consolidated Statement of Cash Flow

thousand Estonian kroons	Note	2009	2008
Cash flows from operating activities			
Operating profit		159 408	159 611
Adjustments for:			
Depreciation and impairment losses	3	418 213	374 176
Gain (loss) on sale of property, plant and equipment	3	185	-5 564
Loss from write-off of property, plant and equipment		907	100
Adjustments total		578 713	528 323
Change in receivables and prepayments		17 854	14 546
Change in inventories		-79 735	-30 700
Change in payables and prepayments		-36 351	17 504
Interest paid		27 362	7 461
Interest received		-61 946	-98 120
Income tax on dividends paid		0	-21 795
Net cash from operating activities		**445 897**	**417 219**
Cash flows used in investing activities			
Acquisition of property, plant and equipment		-569 377	-524 894
Disposal of property, plant and equipment		127 200	70 218
Loans given		-12 517	0
Net cash used in investing activities		**-454 694**	**-454 676**
Cash flows from in financing activities			
Proceeds from bonds issued		156 466	234 697
Received loans		219 499	0
Repayments of borrowings		-320 466	-100 967
Payment of finance lease liabilities		-114 464	-85 700
Received government grants		263 523	0
Proceeds from issue of share capital		0	99 067
Other proceeds from financing activities		0	97 387
Net cash from in financing activities		**204 558**	**244 484**
Total cash flows		**195 761**	**207 027**
At the beginning of the financial year:			
Cash and bank accounts	8	149 251	-57 776
Increase/decrease in cash and cash equivalents		**195 761**	**207 027**
Effect of exchange rate fluctuations	16	-3 206	0
At the end of the financial year:			
Cash and bank accounts	**8**	**341 806**	**149 251**

Notes to the Consolidated Financial Statements

General information

AS Eesti Raudtee is a company registered in the Republic of Estonia on 11 August 1997 located at 35 Toompuiestee, Tallinn. The financial statements as at and for the year ended 31 December 2009 comprise of AS Eesti Raudtee (hereafter „Parent") and its subsidiaries AS EVR Infra and AS EVR Cargo (together referred as the „Group").

The management board authorised these consolidated financial statements for issue on 19 March 2010. The Annual Report containing financial statements that is prepared by the management board and endorsed by the supervisory board will be approved by the annual general meeting, as provided by the Commercial Code of the Republic of Estonia.

The Group is engaged in organising rail transport and infrastructure management.

Note 1: Accounting Policies

1.1 Accounting methods and principles used for preparation of financial statements

The consolidated financial statements of the Group as at and for the year ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Starting as of 1 January 2009, the Group has changed its accounting policies in the following areas:

- Accounting for borrowing costs. In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. Previously the Group recognised borrowing costs as an expense. This change in accounting policy was due to the adoption of revised IAS 23 *Borrowing Costs*.
- Presentation of financial statements. In respect of amendments in IAS 1 *Presentation of Financial Statements* (effective as of 1 January 2009), statement of profit and loss was replaced in the consolidated financial statements of the Group by the statement of comprehensive income. The statement of comprehensive income contains also all non-owner changes in equity. The presentation of the statement of changes in equity changed as the result of preparation of the statement of comprehensive income. Comparative information has been re-presented so that is also is in conformity with the revised standard.

To date, a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial statements of the Group, except for *Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement*. Amendment to IAS 39 clarifies the existing Principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment, which becomes mandatory for the Group's 2010 consolidated financial statements, is not expected to have a significant impact on the consolidated financial statements.

The financial statements have been prepared on the historical cost basis, except for financial instruments carried at fair value through profit and loss, and investment property is measured at fair value.

The functional currency of the Company is the Estonian kroon. Other currencies mostly euros, US dollars, Swiss francs are also used in transactions. The financial statements' presentation currency is Estonian kroon, rounded to the nearest thousand.

1.2 Basis of consolidation

The consolidated financial statements are prepared based on the financial statements of AS Eesti Raudtee and its subsidiaries as at and for the year ended 31 December 2009. The financial statements of subsidiaries have been prepared for the same period as the consolidated financial statements using the same accounting policies.

Subsidiaries are entities controlled by the Group. Control is presumed to exist when parent owns power to govern the financial and operating policies of the entity so as to obtain benefits from its activities, owing usually more than half of the voting power of an entity.

Intra-group transactions, balances and any unrealised gains and losses arising from intra-group transactions are eliminated.

According to the Estonia Accounting Act, parent company's unconsolidated financial statements are presented in the notes of the consolidated financial statements. In preparing parent company's unconsolidated financial statements, the same accounting policies are followed as for consolidated financial statements. Subsidiaries are accounted for at cost in the unconsolidated financial statement of the parent company.

1.3 Significant accounting estimates

The preparation of the financial statements in accordance with IFRS requires management to make assumptions and judgments, which affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and the related assumptions are based on historical experience and several other factors that are believed to be relevant and that are based on circumstances which help define principles for the evaluation of assets and liabilities and which are not directly available from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is changed if it affects only the current period, or in the current and future periods, if the revision affects both current and future periods.

In the following sections are described the most significant estimates made by the Group's management that can impact the financial results:

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

The management has estimated the useful life of property, plant and equipment. The estimate has been based on historical experience and the actual use of assets, as well as the future prospects for their use. The results of the estimations are reflected in Note 3.

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

The Group has carried out regular tests of the recoverable amount of property, plant and equipment and reduced the value of assets, if necessary. These tests on the property, plant and equipment rely on the management's estimates regarding cash flows (cash inflow from use or disposal of property, plant and equipment, cash outflow for maintaining and using them).

The estimates consider the forecasts of the economic environment, freight volumes, railway infrastructure use and pricing. The reduction in the value of non-current assets identified during the accounting period has been recorded in Note 3.

c) Provisions and contingent liabilities

Circumstances regarding assumptions are disclosed in section «Provisions and contingent liabilities» and in Notes 12 and 18.

1.4 Foreign currency transactions

Foreign currency transactions are recorded based on the foreign currency exchange rates of the Bank of Estonia officially valid on the transaction date. Monetary assets and liabilities denominated in foreign currency as at 31 December 2009 have been revalued into Estonian kroon based on the foreign currency exchange rates of the Bank of Estonia officially valid on the balance sheet date. Profits and losses from foreign currency transactions are recorded in the statement of comprehensive income as income or expenses of the period.

The exchange rate of the Estonian kroon and the euro is fixed. One euro is equal 15.6466 kroons. As of 31 December 2009 the exchange rate of the US dollar was 10.8653 kroons (31.12.2008: 11.1052 kroons) and of the Swiss franc 10,5366 (31.12.2008: 10.5063 kroons).

1.5 Property, plant and equipment

Property, plant and equipment are divided into the following categories:

- Land and buildings – land, buildings, structures, railway track, transmission lines;
- Plant and machinery – rolling stock, cars, computer equipment, machinery;
- Other equipment and fixtures – tools, office equipment;
- Construction in progress.

Material components of property, plant and equipment with different useful life are recorded as separate items.

The land under the railway tracks is owned by the State and has not been transferred to the Group's balance sheet. The Group has the right to use the land under the buildings for providing railway services (Decree No. 257 of the Ministry of Roads and Communication of the Republic of Estonia from 20 November 2000) for 50 years and it has the right to extend this period up to 99 years.

Capitalised expenditures on improvements of existing items of property, plant and equipment and expenditures on new items are recorded as assets under construction in progress until such items are available for use.

Property, plant and equipment are stated at historical cost, which comprise of purchase price, non-refundable taxes and other directly attributable expenditures, less accumulated depreciation and any recognised impairment loss.

All costs related to improvements that are expected to generate additional revenues in the following periods are capitalised. The gross carrying value of property, plant and equipment is increased by the improvement costs or the improvement is recognised as a separate item. If needed, the useful life of this item of property, plant and equipment is changed.

Depreciation rates

Depreciation is calculated under the straight-line method. The estimated useful lives of property, plant and equipment are set out below:

Group of property, plant and equipment	years
Buildings	15–100
Transmission lines	7–30
Tracks	10–95
Structures	5–40
Rolling stock	7–32
Machinery	3–40
Vehicles	4–12
Office, computer and other equipment, tools	3–20

Land is not depreciated. Useful lives of improvement costs are the same as for the respective groups of property, plant and equipment.

Depreciation methods, useful lives and residual values are reviewed on an annual basis.

1.6 Investment property

Investment property is an asset that is held by the Group as an owner or leased under finance lease for earning rental income, or for capital appreciation or for both. Investment property is initially recognised in the balance sheet at acquisition cost including transaction costs directly attributed to the acquisition.

Investment property is measured on each balance sheet date at their fair value, using the assistance of professional external experts. The fair value is determined on the basis of the item's market value that is considered to be the best price that the seller could receive or buyer pay if the item was sold in the open market. If no active market exists, the fair value has been determined on the basis of prices paid for similar items or using the discounted cash flow method. The changes in fair value are recognised in profit or loss.

Upon reclassifying owner-used property to investment property, the positive difference between the fair value of the asset and its net book value at the date of transfer is recognised in equity and the negative difference as an expense in the statement of comprehensive income. If investment property is re-classified to other asset then accounting principles of this group of assets under which it is classified will be applied to the item.

1.7 Non-current assets held for sale

Items of property plant and equipment which have a high probability to be sold during the next financial year are recorded as non-current assets held for sale. The assets are stated at the lower of carrying amount or fair value less the expected sale costs. Non-current assets held for sale are not depreciated.

1.8 Inventories

Inventories are recorded at cost, consisting of all costs of purchase and other direct costs incurred in bringing the inventories to their present location and condition. Inventories are calculated using weighted-average method. Inventories are measured in the balance sheet at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less estimated costs of sale.

1.9 Financial instruments (except derivatives)

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Purchases and sales of financial assets are recognised at the trade date, i.e. at the date the Group commits to buy or sell the asset.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the contractual rights to receive the cash flows of the financial asset by transferring substantially all the risks and rewards of ownership of the financial asset. Any rights and obligations created or retained in the transfer are recognised separately as assets and liabilities.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets

The Goup's financial assets comprise of loans and receivables. Loans and receivables are non-derivative financial assets that are not quoted in an active market with fixed or determinable payments. Loans and receivables are recognised as current assets, except when the maturity date is longer than 12 months from the balance sheet date. Such loans and receivables are recognised as non-current assets.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents. Trade and other receivables are measured at amortised cost. Recoverability of trade receivables is estimated based on their anticipated realisable value. Trade receivables are assessed on an individual basis, considering the information available regarding the customer's solvency.

Doubtful receivables have been written down to the amount that will probably be received, uncollectible receivables have been written off from the balance sheet.

Cash and cash equivalents include cash in hand and at banks, short-term demand bank deposits and other short-term highly liquid investments except bank overdrafts. In the balance sheet bank overdrafts are recorded as borrowings under current liabilities.

Financial liabilities

All financial liabilities (trade payables, loans and borrowings, accrued and other payables) are recognised initially at fair value plus transaction costs. Subsequent to initial recognition financial liabilities are measured at amortised cost using the effective interest method.

As a rule, the amortised cost of current financial liabilities is equal to their nominal value, which is why current liabilities are stated in the balance sheet at the amount payable. The amortised cost of non-current financial liabilities is determined using the effective interest method.

Liabilities with payment terms over one year from the balance sheet date are considered to be long-term liabilities. Other liabilities are recorded as short-term liabilities.

Liabilities for vacation expenses are recorded in the period the vacation has been earned, which means when the right to claim the vacation by an employee occurs. Vacation payment earned or its change is recorded in profit or loss and on the balance sheet as a short-term liability.

Trade payables are stated at their nominal value.

Accrued expenses are expenses based on contracts or other documents accounted for on an accrual basis that are to be paid in the following period.

1.10 Impairment of assets

At the end of each reporting period it is assessed whether there is any indication that assets, except inventories and investment property, may be impaired. If any such indication exists that asset may be impaired, the test for impairment shall be carried out.

An impairment loss is recognised when the carrying amount of the asset or its cash generating unit exceeds its recoverable amount. Impairment loss is recognised in profit or loss.

The recoverable amount of receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Current receivables are not discounted.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the asset. If it is not possible to estimate the recoverable amount of an individual asset (the asset does not generate cash inflows that are largely independent of those from other assets), the recoverable amount of the cash-generating unit to which the asset belongs is determined.

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there is an indication that the impairment no longer exists and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.11 Derivative financial instruments

The Group is using derivative instruments for managing risks arising from interest rate and foreign currency rate fluctuations. Derivatives are initially recognised at fair value and are re-measured to fair value at subsequent reporting dates. Fair value is determined on the basis of derivative quote on the balance sheet date. Positive market value derivatives are recorded as receivables and negative market value derivatives are recorded as payables.

1.12 Revenue recognition

Revenue from the sales of transportation services is recognised according to the international convention of freight carriage. Revenue is recorded when the contractual right to income arises. When the goods are received, revenue is recorded at the date of acceptance of goods in the destination station. When the goods are dispatched, revenue is recorded at the date the goods are dispatched from the dispatch station.

Infrastructure access charges are calculated and paid each month and accrued as revenue on a per day basis.

Accession fees related to the connection with another railway infrastructure are recorded as revenue upon accession if such fees do not contain income from future services but only a compensation for the costs related to connection.

Income from the operating lease of rolling stock and other assets is recognised on an accruals basis over the period of the lease contract.

Revenue from the sales of services is recorded upon providing the service. Contract fees received in advance are allocated to revenue according to the volume of tonnes hauled.

Interest income is recognised on an accrual basis of accounting unless collectability is doubtful.

1.13 Income tax

The Income Tax Act that became effective in Estonia on 1 January 2000 replaced the taxation of earnings with the taxation of dividend distributions and other payments that have the characteristics of profit distribution.

Due to the principles of taxation the tax base of assets and liabilities does not have substance and deferred income tax assets and liabilities as defined in IAS 12 "Income Taxes" cannot arise.

The Group's potential tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet. The maximum possible tax liability, which would become payable if the retained earnings would be fully paid out as dividends, is disclosed in Note 18.

Income tax payable on dividends is charged to the income statement when dividends are declared.

Income tax calculated on fringe benefits, gifts, donations, representation costs and costs not related to the business activity is reflected in the income statement as operating costs on an accrual basis.

1.14 Leases

Group as the lessee:

Leases of property, plant and equipment, where the Group substantially has all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments.

Each lease payment is allocated between the repayment of the principal and finance charges so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short or long-term payables. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period.

Leases, where substantially all of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. The Group does not have non-cancelable lease contracts.

Group as the lessor:

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar items of property, plant and equipment used by the Group. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

1.15 Provisions and contingent liabilities

Liabilities which have arisen during the financial year or prior periods, which have legal or contractual basis, which are expected to result in the outflow of economic benefits and which can be reliably estimated but for which the actual payment amount and payment date has not been definitely determined, are recorded as provisions in the balance sheet.

Provisions are measured based on the management's estimates, experience and, when necessary, the assessments of independent experts. Long-term provisions are presented at theirs discounted value.

Restructuring provisions are recognised in the period in which the Group becomes legally or constructively committed to payment (constructive obligation).

Employee termination benefits are recognised only after an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the numbers of employees affected, or after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the Group are not provided in advance.

The Group is bound to pay a lifelong disability relief to persons who lost the ability to work through the Group's fault. Provisions' evaluation was based on the number of persons receiving relief, the expected period of payment and its amount (Note 12).

Contingent liabilities are not recognised in the balance sheet of the Group but information is disclosed in the notes of the financial statements. Such contingent liabilities for which possible outflow of resources is remote, are not disclosed.

1.16 Government grants

The Group recognises government grants related to assets using the net method (capital approach) - in calculating the carrying amount of the asset the grant is deducted from the cost. The assets acquired are depreciated over the period of their useful lives.

A government grant is recognised in the balance sheet as a liability when the grant is received but the condition associated with the grant which requires completing the asset has not been met yet.

A government grant is recognised in the balance sheet as a receivable when costs have been incurred and the application for payment has been accepted.

In regard to government grants related to expenses, the income approach is used under which the expense and grant received are recognised separately.

1.17 Borrowing costs

Borrowing costs (for example interests) that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset during the period necessary to prepare the asset for its intended use. Other borrowing costs are recognised as an expense in the period in which they incur.

1.18 Subsequent events

The consolidated financial statements reflect significant events affecting the valuation of assets and liabilities that became evident between the reporting date and the period on which the financial statements were prepared and which relate to the transactions of the reporting period or prior periods.

Subsequent events that have not been considered on the valuation of assets and liabilities, but which will have a significant effect on the result of the next financial year are disclosed in the notes to the consolidated financial statements.

Note 2: Financial Risk Management

2.1 Financial risk factors

Due to the nature of its activities, the Group is exposed to a variety of financial risks:

- market risk, comprising both foreign currency exchange and interest risks;
- credit risk;
- liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Changes in interest rates are the most significant risk.

Treasury management policies which management use to control risk are in place and are regularly reviewed to ensure that they continue to be most appropriate for the company. They are approved by the Audit Committee of the Supervisory Board.

A Treasury Department carries out risk management under policies introduced by the Group's management.

2.2 Foreign currency exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to US dollars and Swiss francs.

The Group matches customer revenue in foreign currencies with expenses in the same currency to hedge risk wherever possible.

The Group can use derivative financial instruments (currency and interest rate swaps) to hedge certain risks.

At 31 December 2009 the Group had no significant currency exposures except for liabilities in Euro (Note 11) to which the Estonian kroon is pegged. Hedging this risk would be too expensive.

The maximum exposure to the open foreign currency position at the balance sheet date was the following:

thousand currencies	**31.12.2009**		**31.12.2008**	
	CHF	USD	CHF	USD
Cash and cash equivalents	468	499	104	718
Receivables	1 520	449	5 229	347
Payables	(1 102)	0	(6 248)	0
Net-positions	886	948	(915)	1 065

The net positions of those currencies are insignificant from Group's perspective and have no material influence on the financial statements of the Group.

2.3 Interest rate risk

The Group's revenue and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group systematically borrows at variable rates and may use interest rate swaps as cash flow hedges of future interest payments, which have the economic effect of converting borrowings from floating rates to fixed rates. The Group monitors the proportion of variable rate borrowings as a proportion of total borrowings and has targets in place to control risk. The Group also monitors the average interest rate repricing period to control the duration of the borrowing portfolio.

The economic effect of interest rate swaps is based on converting floating interest loans to fixed interest loans. The interest rate swaps would allow the Group to raise long-term borrowings at floating rates and swap them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group would agree with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

The Group's borrowing portfolio has the dominant interest rate repricing period of six months. An increase in six month Euribor interest rates of 1% would increase the interest charge of the company by EEK 15.24 million during a year (2008: EEK 16.76 million) assuming all other variables remain constant.

The liabilities of the Group can be grouped as follows:

- loans with fixed interest EUR 5.54 million
- loans with floating interest EUR 97.41 million

As of 31 December 2009 the notional amount of interest swaps amounted to EUR 55.2 million.

Taking advantage of the favourable market situation, the Group fixed interest for a significant portion of its borrowings during 2009.

2.4 Credit risk

The Croup has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are only made to customers with an appropriate credit history. The Group's credit risk has been reduced by requesting advance payment from customers having no contract or whose solvency is questionable. In order to reduce credit risk, a background check of customers is conducted prior to signing any major contracts.

Other measures for managing credit risk include the daily monitoring of customers' payment history and operative application of necessary measures. All doubtful receivables have been written off or reduced in value as at the end of the year.

The maximum exposure of customer receivables to credit risk at the balance sheet date by terms of payment was the following:

thousand Estonian kroons		
	Year ended 31 December	
Term of payment	**2009**	**2008**
not yet due	71 958	52 231
exceeded by 1 – 30 days	2 281	6 679
exceeded by 31 – 180 days	711	4 988
exceeded by 181 – 365 days	2 961	111
exceeded by more than 1 year	135 941	157 170
Total (Note 8)	**213 852**	**221 179**

The Group has recognised an allowance of EEK 52 114 (Note 7) thousand for doubtful receivables.

Cash and cash equivalents of the Group are deposited in major Estonian banks belonging to the large banks of Finland, Sweden and Denmark. More precise information on cash and cash equivalents is presented in Note 8.

2.5 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

2.6 Operational risks

The Group is insured against sudden and unexpected physical loss, damage or destruction; business interruption and extra expenses; third party claims against the Group, including sudden and unexpected environment pollution damages; crime risks; liability of Directors and Officers (Management and Supervisory Board and members of senior management); accident insurance of rescue personnel; motor vehicle insurance against any accident, theft and vandalism.

2.7 Capital management

The policy of the Group is to maintain a strong capital base to ensure the confidence of the financial markets is retained. The Group has the use of several credit lines and overdrafts with sufficient maturity and size to enable the management to fulfill the planned investment programme for the following twelve months. The equity base of the Group is sufficient to support additional debt should the need arise. In its loan agreements, the Group has assumed the obligation to retain an equity / balance sheet total ratio of at least 35% (as of 31 December 2009 it was 50.9%).

2.8 Fair values

The management considers that the fair values of all financial assets and liabilities are reasonable approximations to their carrying values in the financial statements.

	31.12.2009		**31.12.2008**		
thousand Estonian kroons	Carrying amount	Fair value	Carrying amount	Fair value	Note
Assets carried at amortised cost					
Loans and receivables	266 691	266 691	200 980	200 980	7
Cash and cash equivalents	341 806	341 806	149 251	149 251	8
	608 497	**608 497**	**350 231**	**350 231**	
Liabilities at fair value					
Interest rate swaps	9 005	9 005	2 236	2 236	13
	9 005	**9 005**	**2 236**	**2 236**	
Liabilities carried at amortised cost					
Bank loans	1 277 084	1 270 566	1 220 994	1 211 248	11
Finance lease liabilities	333 659	333 659	448 123	448 123	11
Trade and other payables	237 594	237 594	258 987	258 987	13
	1 848 337	**1 841 819**	**1 928 104**	**707 110**	

Note 3: Property, Plant and Equipment

thousand Estonian kroons	**Land and buildings**	**Plant and equipment**	**Other equip-ment and fixtures**	**Construction in progress**	**Total**
At 31 December 2007					
Acquisition cost	2 966 370	2 132 453	32 871	59 774	5 191 468
Accumulated depreciation	-925 854	-787 673	-26 138	0	-1 739 665
Net book value	**2 040 516**	**1 344 780**	**6 733**	**59 774**	**3 451 803**
Year ended 31 December 2008					
Acquisition cost					
Additions	19 807	58 844	5 960	375 229	459 840
Revaluation increase	5 051	0	0	0	5 051
Reclassified	210 790	140 094	597	-351 481	0
Reclassified to investment property	-6 330	0	0	0	-6 330
Reclassified as held for sale	2 444	0	0	0	2 444
Disposals	-7 131	-28 165	-5 002	0	-40 298
Depreciation					
Depreciation for the year	-145 003	-226 642	-2 531	0	-374 176
Accumulated depreciation of assets sold/written off	7 131	26 284	5 002	0	38 417
Reclassified as held for sale	-554	0	0	0	-554
Movements in 2008	**86 205**	**-29 585**	**4 026**	**23 748**	**84 394**
At 31 December 2008					
Acquisition cost	3 191 001	2 303 226	34 426	83 522	5 612 175
Accumulated depreciation	-1 064 280	-988 031	-23 667	0	-2 075 978
Net book value	**2 126 721**	**1 315 195**	**10 759**	**83 522**	**3 536 197**
Year ended 31 December 2009					
Acquisition cost					
Additions	83	20 410	634	588 473	609 600
Reclassified	459 364	60 198	799	-520 361	0
Disposals	-7 097	-181 972	-1 308	0	-190 377
Received grants	-202 395	-2 107	0	0	-204 502
Depreciation					
Depreciation for the year	-153 797	-241 113	-2 583	-21 605	-419 098
Accumulated depreciation of assets sold/written off	7 097	54 587	1 308	0	62 992
Corrections related to received grants	822	63	0	0	885
Movements in 2009	**104 077**	**-289 934**	**-1 150**	**46 507**	**-140 500**
At 31 December 2009					
Acquisition cost	3 440 956	2 199 755	34 551	151 634	5 826 896
Accumulated depreciation	-1 210 158	-1 174 494	-24 942	-21 605	-2 431 199
Net book value	**2 230 798**	**1 025 261**	**9 609**	**130 029**	**3 395 697**

In 2009 the total amount of capitalised improvements to property, plant and equipment amounted to EEK 253 302 thousand (2008: EEK 225 783 thousand). Out of this amount EEK 226 535 thousand (2008: EEK 175 279 thousand) was added to Land and buildings, EEK 26 762 thousand (2008: EEK 50 435 thousand) to Plant and equipment, 7 thousand to Other equipment and fixtures.

In 2009, the Group reduced the carrying amount of locomotives by EEK 83 105 thousand which is recorded under depreciation and impairment loss of property, plant and equipment. According to management, due to their technical condition the above locomotives the expected utilization cannot be achieved. In addition, in construction in progress, the value of repaired and obsolete diesel generators was written down by EEK 20 174 thousand.

As at 31 December 2009 no assets of the Group have been pledged to secure loans.

Property, plant and equipment held under finance lease:

thousand Estonian kroons	**Land**	**Plant and equipment**	**Total**
Finance lease movements at acquisition cost 31 December 2008	**0**	**638 052**	**638 052**
Adjustment of opening balance	1 016	0	1 016
Additions	91	219	310
End of the leasing period	0	-174 458	-174 458
31 December 2009	**1 107**	**463 813**	**464 920**
Accumulated depreciation 31 December 2008	**0**	**105 614**	**105 614**
Depreciation for the period	0	52 375	52 375
End of the leasing period	0	-47 095	-47 095
31 December 2009	**0**	**110 894**	**110 894**
Net book value			
31 December 2008	**0**	**532 438**	**532 438**
31 December 2009	**1 107**	**352 919**	**354 026**

For information about finance lease liabilities, interest rates and interest expenses see Note 11.

Note 4: Investment property

At 31 December 2009, investment property stood at EEK 4 570 thousand. At the balance sheet date, the fair value of investment property was re-measured by an acknowledged real estate expert and the value of investment property was reduced by EEK 1 760 thousand which is recorded in other expenses of the period.

A land unit of 9 481 m^2 that has been leased out from 17 November 2008. The revenue from operating lease earned during the financial year amounted to EEK 684 thousand (2008: 79.8 thousand).

Note 5: Non-current Assets Held for Sale

	Year ended 31 December	
thousand Estonian kroons	**2009**	**2008**
Buildings, structures (net book value)	3 151	3 151
Total	**3 151**	**3 151**

As of 31 December 2009 the non-current assets to be disposed include three buildings with the net book value of EEK 3 151 thousand. The buildings are planned to be sold during 2010.

Note 6: Inventories

	Year ended 31 December	
thousand Estonian kroons	**2009**	**2008**
Infrastructure inventory	207 532	118 460
Rolling stock spare parts	39 414	45 857
Fuel and lubricants	4 799	7 090
Other inventory	2 809	3 412
Total inventory	**254 554**	**174 819**

Note 7: Receivables

	Year ended 31 December	
thousand Estonian kroons	**2009**	**2008**
Trade receivables	213 852	221 179
Allowance for bad and doubtful receivables	-52 114	-74 064
Trade receivables - net	**161 738**	**147 115**
Receivables related to grants	65 593	0
Other receivables	12 617	94
Prepaid taxes	21 767	997
Prepaid expenses	5 664	9 022
Accrued income	4 976	52 774
Total other receivables	**110 617**	**62 887**
Total receivables and prepaid expenses	**272 355**	**210 002**
Movements of allowance for bad and doubtful receivables		
At the beginning of financial year	**-74 064**	**-74 575**
Expensed during the financial year	-364	-1 850
Written off the balance sheet	22 287	2 052
Collected during the financial year	27	309
At the end of financial year	**-52 114**	**-74 064**

Trade receivables include EEK 129.8 million receivable of infrastructure access fees, EEK 46 million out of which have been assessed doubtful. The Group is currently claiming the debt from a freight transport undertaking in court. The freight transport undertaking has presented a bank guarantee for EEK 82.8 million to secure the claim.

Note 8: Cash and Cash Equivalents

	Year ended 31 December	
thousand Estonian kroons	**2009**	**2008**
Cash at bank	61 287	16 801
Overnight bank deposit	274 115	132 441
Pledge deposits	6 400	0
Other cash	4	9
Total	**341 806**	**149 251**

Note 9: Equity

9.1 Share capital

As of 31.12.2009 the Company`s share capital is EEK 399 067 thousand, consisting of 39 906 730 common shares with par value of 10 EEK each. All shares are fully paid.

Each share gives its owner the right to attend the annual general meeting of the Company and equally one vote in decision making. All shares rank equally with regard to the Company`s residual assets.

According to the Company`s articles of association the maximum number of shares is 120 million and the maximum share capital is EEK 1 200 000 thousand.

9.2 Statutory legal reserve

The statutory legal reserve is increased each year by a transfer of 5% of the profit for the period until the reserve has reached 10% of the registered share capital. The reserve is non-distributable; it can be used to increase the share capital and to offset future losses. In 2009, capital reserve was increased by EEK 3 482 thousand (2008: EEK 0).

9.3 Non-current asset revaluation reserve

The non-current asset revaluation reserve comprises the difference between the fair value of a land plot and its carrying amount which was reclassified from property, plant and equipment to investment property. The revaluation reserve includes the result of revaluation of land reclassified as investment property.

Note 10: Derivative Instruments

The Group has four open derivative contracts (interest rate swaps) as of 31 December 2009 for fixing the interest rate of long-term loans in the notional amount of EEK 863 692 thousand (2008: EEK 256 604 thousand). All the terms and maturity periods of interest rate swaps follow the repayment schedule of the respective underlying loan. Interest rate swaps are cash flow risk management instrument, but the Group does not apply hedge accounting principles. The liabilities related to the derivative instruments have been recorded under the balance sheet item "Accrued expenses" (Note 13).

31 December 2009			
thousand Estonian kroons	**Maturity date**	**Notional amount**	**Negative fair value 2009**
Interest rate swap (EUR)	2014	863 692	9 005
Total		**863 692**	**9 005**
31 December 2008			
thousand Estonian kroons	**Maturity date**	**Notional amount**	**Negative fair value 2008**
Interest rate swap (EUR)	2010	256 604	2 236
Total		**256 604**	**2 236**

Note 11: Borrowings

Loan and lease liabilities as at 31.12.2009					
thousand Estonian kroons	**Balance as at 31.12.2009**	**Including non-current portion**	**Including current portion**	**Maturity date**	**Interest rate**
Loan from European Investment Bank mediated through Ministry of Finance (EEK 250 million)	86 658	67 401	19 257	31.05.2014	fixed interest of 6.2%
Loan from syndicate of commercial banks (EUR 50 million)	567 221	486 188	81 031	20.12.2016	6 months EURIBOR + 0.75%
Bonds issued to Nordic Investment Bank (EUR 40 million)	623 205	581 668	41 537	15.12.2024	6 months EURIBOR + 0.32%
Total loans from banks and other borrowings	**1 277 084**	**1 135 257**	**141 825**		
Total lease liabilities	**333 659**	**304 535**	**29 124**	**2010 - 2028**	**average 3.054%**
Total borrowings	**1 610 743**	**1 439 792**	**170 949**		

Loan and lease liabilities as at 31.12.2008					
thousand Estonian kroons	**Balance as at 31.12.2008**	**Including non-current portion**	**Including current portion**	**Maturity date**	**Interest rate**
Loan from European Investment Bank mediated through Ministry of Finance (EEK 250 million)	105 915	86 658	19 257	31.05.2014	fixed interest of 6.2%
Loan from syndicate of commercial banks (EUR 50 mllion)	648 503	567 429	81 074	20.12.2016	6 months EURIBOR + 0.50%
Bonds issued to Nordic Investment Bank (EUR 30 million)	466 576	466 752	-176	15.12.2024	6 months EURIBOR + 0.32%
Total loans from banks and other borrowings	**1 220 994**	**1 120 839**	**100 155**		
Total lease liabilities	**448 123**	**401 143**	**46 980**	**2009 - 2028**	**average 5.62%**
Total borrowings	**1 669 117**	**1 521 982**	**147 135**		

Contractual maturities of borrowings					
thousand Estonian kroons		**< 1 year**	**1-5 years**	**Over 5 years**	**Total**
As at 31 December 2009					
Borrowings		141 825	651 750	483 509	1 277 084
Amounts payable under finance leases		35 971	149 128	206 425	391 524
Less: future finance charges		-6 847	-24 049	-26 969	-57 865
Present value of lease obligations		29 124	125 079	179 456	333 659
Total		**170 949**	**776 829**	**662 965**	**1 610 743**

thousand Estonian kroons		**< 1 year**	**1-5 years**	**Over 5 years**	**Total**
As at 31 December 2008					
Borrowings		100 155	647 549	473 290	1 220 994
Amounts payable under finance leases		67 967	270 187	295 138	633 292
Less: future finance charges		-20 987	-66 807	-97 375	-185 169
Present value of lease obligations		46 980	203 380	197 763	448 123
Total		**147 135**	**850 929**	**671 053**	**1 669 117**

During 2009 finance lease interest of EEK 13 060 thousand was expensed (2008: EEK 26 306 thousand) and bank loans interest EEK 43 742 thousand was expensed (2007: EEK 69 870 thousand).

As of 31 December 2009 the Group has not used EEK 216 466 thousand (2008: EEK 235 645 thousand) of its overdraft and credit facilities.

On 5 March 2009, under the EUR 40 million bond issue agreement signed with the Nordic Investment Bank in 2007, the Group issued the last installment of 10 000 bonds with the nominal value of EUR 1 000 each bond with the total value of EUR 10 million. In the years 2007 to 2009, the Group issued bonds at the total value of EUR 40 million. The bonds are redeemed in equal installments twice a year in the period between 2010 and 2024.

The Group has provided no loan collaterals.

Note 12: Provisions

thousand Estonian kroons	**Provision for employee benefits**	**Provision for legal disputes**	**Total**
At 31 December 2008	**11 881**	**0**	**11 881**
Establishing	-281	36 200	35 919
Used during the year	-887	0	-887
At 31 December 2009	**10 713**	**36 200**	**46 913**
Current liability	925	36 200	37 125
Non-current liability	9 788	0	9 788
Total provision	**10 713**	**36 200**	**46 913**

The Group has made a provision for paying benefits to employees to compensate for personal injuries that occurred during the performance of professional duties. The provision is based on the average period of payment that generally lasts until the death of an employee and on the amount of benefit. In determination of the payment period the information from the Statistics Office on expected remaining lifetime based on the age of an employee is used. The provision has been discounted to its present value with the interest rate of 5% that contains the discount rate of 10% and estimated inflation change of 5%.

The Republic of Estonia has filed a claim against the Group for reclaiming PHARE aid in the sum of EEK 36.2 million. The claim is based on a report of the EU Commission in which it is alleged that the Group has not used the aid in complete compliance with the project specification. The Group considers that such claims have no grounds and the extent of the so-called non-eligible aid has not been proven.

Provision-related cost is recognised in profit or loss under Other expenses.

Note 13: Trade and Other Payables

	Year ended 31 December	
thousand Estonian kroons	**2009**	**2008**
Trade payables	168 166	131 857
Customer prepayments for goods and services	102	41
Deferred income	40 827	46 149
Total trade and other payables	**209 095**	**178 047**
Accrued expenses:		
payable to employees	51 340	57 160
social tax payable	7 200	7 916
interest payable	1 455	1 920
other accrued expenses	18 444	72 926
Derivatives (Note 10)	9 005	2 236
Total accrued expenses	**87 444**	**142 158**
Total	**296 539**	**320 205**

Trade payables of EEK 168 166 thousand (2008: EEK 131 857 thousand) include a liability to suppliers for non-current assets of EEK 58 278 thousand (2008: EEK 18 054 thousand).

Note 14: Net Sales and Other Income

Geographical analysis of revenue

thousand Estonian kroons	**2009**	**2008**
Total sales to EU countries	**1 447 242**	**1 570 902**
Estonia	1 421 175	1 505 681
Lithuania	8 410	49 472
Finland	8 570	6 467
Cyprus	0	5 028
Latvia	9 087	4 254
Total sales outside of EU	**69 499**	**79 012**
Russia	47 832	53 537
Kazakhstan	9 140	11 221
Ukraine	3 271	3 190
Uzbekistan	2 370	3 044
Belarus	4 047	2 831
Turkmenistan	819	1 299
Other	2 020	3 890
Total	**1 516 741**	**1 649 914**

Geographical location indicates the location of customer.

Sales revenue by areas of activity

thousand Estonian kroons	**2009**	**2008**
Infrastructure services	573 282	516 669
Transport services	815 887	958 662
Auxiliary transport activities	17 656	21 780
Rental services	32 591	63 402
Maintenance and repair of motor vehicles	26 471	40 907
Purchased and mediated electricity	18 914	16 031
Telecommunication services	4 501	4 147
Real estate services, rental of buildings and premises	2 794	2 527
Wholesale and retail sale	24 645	25 789
Total	**1 516 741**	**1 649 914**

Other operating income

thousand Estonian kroons	**2009**	**2008**
Gain on sale of property, plant and equipment	-185	5 664
Received government grants	342	0
Fines, penalties and rewards	2 871	6 653
Other	1 391	1 228
Total other income	**4 419**	**13 545**

Note 15: Operating Expenses

thousand Estonian kroons	**2009**	**2008**
Raw and other materials	50 552	61 636
Write-down and write-off of inventories	723	8 193
Goods purchased for resale	29 700	32 455
Services purchased for resale	1 551	804
Energy	110 541	196 687
Electricity	11 258	12 466
Fuel	99 283	184 221
Subcontracting	39 076	43 325
Transportation costs	4 752	9
Use of freight wagons and containers	47 580	75 961
Railway repair and maintenance	42 864	41 639
Real estate maintenance	10 473	7 864
Maintenance of trucks and tractors	6 555	6 485
Systems of communication, electricity and security	7 276	5 411
Other rail transport related services	3 969	5 588
Repair and maintenance of rolling stock	3 008	2 960
Repair of technological equipment	2 384	2 118
Other	8 893	61 783
Total cost of materials, goods and services	**369 897**	**552 918**
thousands Estonian kroons	**2009**	**2008**
Rental and lease	34 447	33 768
Energy	10 515	11 448
Electricity	3 636	3 828
Heat	1 888	1 149
Fuel	4 991	6 471
Miscellaneous office expenses	17 163	19 298
Business travel expenses	3 305	2 907
Training expenses	840	702
State and local taxes	9 819	7 564
Insurance services	7 066	11 401
Spare parts and maintenance of cars	3 946	2 854
Cost of sales	3 754	1 924
Information services	3 736	3 495
Other	20 305	35 290
Total miscellaneous operating expenses	**114 896**	**130 651**

Note 16: Financial Income and Expenses

thousand Estonian kroons	**2009**	**2008**
Interest income	31 856	15 309
Interest expense total	-61 481	-97 212
Interest expense on bonds issued	-15 203	-22 111
Interest expense on borrowings	-28 637	-48 555
Interest expense on finance lease	-13 056	-26 306
Other interest expenses	-4 585	-240
Foreign currency translation differences	-3 206	-1 014
Other finance income and costs	-6 155	-7 055
Total finance income and finance costs	**-38 986**	**-89 972**

Note 17: Income Tax

According to the Estonian Income Tax Act the earned profit of a resident legal entity is not subject to tax, instead the tax is due on dividend distribution. Pursuant to the Income Tax Act Section 50 effective since 1 January 2003, resident legal entities are liable to income tax on all dividends paid and other profit distributions irrespective of the recipient. The tax rate applicable is 21/79 on the top of the dividends paid from 1 January 2009 (from 1 January 2010 21/79).

The potential tax liability that may occur if all distributable retained earnings should be paid out as dividends is not recognised on the balance sheet. The income tax due on dividend distribution is recorded as a tax expense of the period when the dividend is declared.

The Group's retained earnings that may be distributed as at 31 December 2009 amounted to EEK 1 532 276 thousand (2008: EEK 1 415 336 thousand). Consequently, the maximum possible tax liability, which would become payable if retained earnings were fully distributed in 2010, is EEK 321 778 thousand (2009: EEK 297 221 thousand).

Note 18: Contingent liabilities

	Year ended 31 December	
thousand Estonian kroons	**2009**	**2008**
Freight transport undertaking	18 400	18 400
Customer	2 700	2 700
Total contingent liabilities	**21 100**	**21 100**

A freight transport undertaking has filed a court case against the Group for compensating the cost of wagons that became unusable as the result of a railway accident that took place in Russia. The claim is for EEK 18.4 million. The Group considers that under the international freight rules (SMGS) it is only an intermediatory and that any cost will be ultimately paid by the October Railway in Russia. Meanwhile, the Russian court has declared it to be a *force majeure* event and therefore the Group cannot be liable for the destruction of cargo. The decision has been appealed through all court instances and been resent to Harju County Court. On 6 January 2010, Harju County Court made its judgment to dismiss the claim which was followed by an appeal by the freight transport undertaking. According to management's estimate, a positive court judgment is probable and consequently, no provision has been made for that claim.

AS Contimer has filed a court case against the Group for claiming EEK 2.7 million (as of 26 November 2008). The claim is based on SMGS agreement under which the plaintiff handed over to the respondent goods for transporting them to Ukraine. Upon the arrival of the cargo to its destination it was discovered that some of the goods were missing (worth the sum mentioned above). Under the SMSG agreement, AS Contimer filed a claim against the Group. The third party involved in the process is Latvian Railways on whose infrastructure the goods allegedly went missing. By Harju County Court judgement of 31 December 2009 the claim was satisfied. The Court judgement has not entered into force yet since a third party has filed an appeal against the Group which is not likely to be satisfied by the circuit court and the County Court judgment will remain in force. After the Court judgement has entered into force, the Group intends to claim the damage through reclamation proceedings from Latvian Railways.

Note 19: Commitments

Capital commitments

As of 31 December 2009 capital expenditure commitments to purchase property, plant and equipment contracted for at the balance sheet date but not yet incurred amount to EEK 198.2 million (2008: EEK 65.5 million) for the years 2010 to 2011. In addition, an agreement has been made with an obligation to purchase assets completed in 2012 at the estimated amount of EEK 560 million with the final settlement term of 20 year.

Operating lease commitments – Company as lessee

In 2009 the Company leased transport means (locomotives, cars) and buildings under the operating lease terms. Lease payments were made in the total amount of EEK 32 117 thousand (2008: EEK 31 977 thousand).

The future operating lease payments fall into the following periods:

	Year ended 31 December	
thousand Estonian kroons	**2009**	**2008**
Not later than 1 year	26 869	27 814
2-5 years	78 579	71 715
over 5 years	193 479	138 303
Total	**298 927**	**237 832**

Operating lease commitments – Company as lessor

In 2009 AS Eesti Raudtee received rental income in the amount of EEK 36 443 thousand (2008: EEK 68 011 thousand) as lessor under operating lease (rolling stock, rooms, storage yards).

	Year ended 31 December	
thousand Estonian kroons	**2009**	**2008**
Leased assets:		
Acquisition cost	79 489	225 757
Accumulated depreciation	-14 733	-47 312
Carrying value	**64 756**	**178 445**

Depreciation cost of assets under operating lease was EEK 4 448 thousand at 2009 (2008: EEK 7 249 thousand).

Operating lease revenue from non-cancellable lease contracts in the forthcoming periods:

	Year ended 31 December	
thousand Estonian kroons	**2009**	**2008**
Not later than 1 year	12 484	51 004
2 - 5 years	15 316	46 113
Over 5 years	11 855	15 193
Total	**39 655**	**112 310**

The Company has several operating leases, whose duration is typically extended every year and therefore contractual commitments do not extend more than one year. Leased assets include rolling stock with 30 years remaining life and three years of contracted operating lease contracts.

Note 20: Related Party Transactions

The Company's transactions with related parties are transactions with shareholders, members of the supervisory and management board, employees and their relatives, also companies over which the above listed persons have control or significant influence.

The sole shareholder of AS Eesti Raudtee is the Republic of Estonia.

Balances and amounts with related parties

thousand Estonian kroons	**Year ended 31 December**			
	2009		**2008**	
	Receivables	Payables	Receivables	Payables
Subsidiaries	12 607	0	65	0
Companies related to management and supervisory board	80	2 087	0	0
Goverment related entities	6 151	6 225	4 877	5 826

thousand Estonian kroons	**2009**		**2008**	
	Income	Expenses	Income	Expenses
Subsidiaries	1 789	0	399	0
Companies related to management and supervisory board	217	35 254	0	143
Goverment related entities	80 910	36 348	102 422	35 935

Remuneration and other significant benefits calculated for the management and supervisory board members

thousand Estonian kroons	**2009**	**2008**
Calculated remuneration and benefits	7 728	5 617

Note 21: Government Grant

thousand Estonian kroons	**Year ended 31 December 2009**			
	Received	Used	Payable	Receivable
Government grants for acquisition of non-current assets				
Cross-border section Tartu-Valga railway reconstruction/upgrading (Trans-European Transport Network Fund)	67 836	112 899	0	46 063
Reconstruction of Railway infrastructure on Rail Baltica route (Tallinn–Tartu, European Cohesion Fund)	176 827	86 007	108 024	17 204
Reconstruction of platforms onto eurolevel (European Cohesion Fund)	18 163	5 596	15 732	3 165
Securing passengers safety in the range of trains (European Regional Development Fund)	697	0	697	0
Total government grants for acquisition of non-current assets	**263 523**	**204 502**	**124 453**	**66 432**
Total government grants	**263 523**	**204 502**	**124 453**	**66 432**

Note 22: Financial information about the parent company

Balance Sheet

thousand Estonian kroons	Year ended 31 December 2009	2008
ASSETS		
Non-current assets		
Property, plant and equipment	446 639	3 536 197
Investment property	4 570	6 330
Long-term financial investments	2 781 096	45
Total non-current assets	**3 232 305**	**3 542 572**
Current assets		
Non-current assets held for sale	3 151	3 151
Inventories	458	174 819
Trade receivables	3 993	147 115
Other receivables	350 532	62 887
Cash and cash equivalents	123 982	149 251
Total current assets	**482 116**	**537 223**
TOTAL ASSETS	**3 714 421**	**4 079 795**
EQUITY AND LIABILITIES		
Equity		
Share capital	399 067	399 067
Share premium	204 723	204 723
Statutory legal reserve	33 482	30 000
Non-current asset revaluation reserve	5 051	5 051
Retained earnings from previous periods	1 411 854	1 345 697
Profit for the period	59 166	69 639
Total equity	**2 113 343**	**2 054 177**
Non-current liabilities		
Loan and leasing liabilities	1 407 516	1 521 982
Customer advances	0	4 185
Provisions	502	10 848
Total non-current liabilities	**1 408 018**	**1 537 015**
Current liabilities		
Trade and other payables	31 020	320 205
Tax liabilities	1 523	20 230
Borrowings	160 457	147 135
Provisions	60	1 033
Total current liabilities	**193 060**	**488 603**
Total liabilities	**1 601 078**	**2 025 618**
TOTAL EQUITY AND LIABILITIES	**3 714 421**	**4 079 795**

Comprehensive income

thousand Estonian kroons	**2009**	**2008**
REVENUE		
Net sales	184 346	1 649 914
Other operating income	1 366	13 545
Total revenue	**185 712**	**1 663 459**
OPERATING EXPENSES		
Goods, materials and services	11 529	522 918
Miscellaneous expenses	37 132	130 651
Personnel expenses	46 134	468 826
Depreciation and impairment loss	59 614	374 176
Other expenses	7 424	7 277
Total operating expenses	**161 833**	**1 503 848**
OPERATING PROFIT	**23 879**	**159 611**
Finance income and expenses		
Interest expenses	-15 873	-97 212
Other finance income	73 637	23 301
Other finance expenses	-22 477	-16 061
Total finance income and expenses	**35 287**	**-89 972**
PROFIT BEFORE INCOME TAX	**59 166**	**69 639**
PROFIT FOR THE PERIOD	**59 166**	**69 639**
Other comprehensive income:		
Result from revaluation of hedging instruments	0	-1 128
Non-current asset revaluation reserve	0	5 051
Total other comprehensive income for the period	**0**	**3 923**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**59 166**	**73 562**

Statement of Changes in Equity

thousand Estonian kroons	**Share capital**	**Share pre-mium**	**Statu-tory legal reserve**	**Hedging reserve**	**Non-cur-rent asset revaluation reserve**	**Retained earnings from previ-ous periods**	**Profit for the period**	**Total**
Balance as at 31 December 2007	**300 000**	**204 723**	**30 000**	**1 128**	**0**	**1 201 923**	**143 774**	**1 881 548**
Total comprehensive income for the period	0	0	0	-1 128	5 051	0	69 639	73 562
Allocation of net profit to retained earnings	0	0	0	0	0	143 774	-143 774	0
Increase in share capital	99 067	0	0	0	0	0	0	99 067
Balance as at 31 December 2008	**399 067**	**204 723**	**30 000**	**0**	**5 051**	**1 345 697**	**69 639**	**2 054 177**
Total comprehensive income for the period	0	0	0	0	0	0	59 166	**59 166**
Allocation of net profit to retained earnings	0	0	0	0	0	66 157	-66 157	0
Increase in statutory legal reserve	0	0	3 482	0	0	0	-3 482	0
Balance as at 31 December 2009	**399 067**	**204 723**	**33 482**	**0**	**5 051**	**1 411 854**	**59 166**	**2 113 343**
Book value of the holdings under significant influence								-1 410 000
The value of holdings under significant influence calculated under the equity method								1 471 256
Adjusted unconsoli-dated equity 31 December 2009	**399 067**	**204 723**	**33 482**	**0**	**5 051**	**1 411 854**	**59 166**	**2 174 599**

Cash Flow Statement

thousand Estonian kroons	**2009**	**2008**
Cash flows from operating activities		
Operating profit	23 879	159 611
Adjustments for:		
Depreciation and impairment charge	59 614	374 176
Gain (loss) on sale of property, plant and equipment	182	-5 564
Loss from write-off of property, plant and equipment	0	100
Adjustments total	83 675	528 323
Changes in working capital:		
Change in receivables and tax prepayments	11 381	14 546
Change in inventories	4 029	-30 700
Change in payables and tax liabilities	-110 320	17 504
Interest paid	58 313	7 461
Interest received	-23 955	-98 120
Income tax on dividends paid	0	-21 795
Net cash from operating activities	**23 123**	**417 219**
Cash flows from in investing activities		
Purchase and improvement of property, plant and equipment	-58 053	-524 894
Disposal of property, plant and equipment	127 203	70 218
Payments from loans given	1 400 771	0
Loans given	-168 983	0
Contribution to subsidiaries´share capital	-1 300 000	0
Net cash from (used in) investing activities	**938**	**-454 676**
Cash flows from in financing activities		
Proceeds from bonds issued	156 466	234 697
Loans received	156 466	
Repayments of long-term loans	-257 433	-100 967
Payment of finance lease liabilities	-104 829	-85 700
Proceeds from issue of share capital	0	99 067
Net cash used in (from) in financing activities	**-49 330**	**147 097**
Total Cash flows	**-25 269**	**109 640**
At the beginning of the financial year:		
Cash and bank accounts	149 251	-57 776
Increase/decrease in cash and cash equivalents	**-25 269**	**207 027**
At the end of the financial year:		
Cash and bank accounts	**123 982**	**149 251**

Note 23: Events after the Balance Sheet Date

In October 2009, AS Eesti Raudtee concluded a purchase agreement on acquiring 125 container flats at the total cost of USD 6.2 million. The container platforms were delivered in February 2010.

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Independent Auditor's Report

(Translation from Estonian)

To the shareholder of AS Eesti Raudtee

We have audited the accompanying consolidated financial statements of AS Eesti Raudtee, which comprise the consolidated balance sheet as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. These responsibilities include: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibilities

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Eesti Raudtee as at 31 December 2009, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 19 March 2010

KPMG Baltics AS
Licence No 17
Narva mnt 5, Tallinn

/signature/

Andres Root
Authorised Public Accountant

Proposal for Profit Distribution

The Management Board of AS Eesti Raudtee proposes to transfer the net profit for 2009 in the amount of EEK 120 422 thousand as follows:

To statutory legal reserve	EEK 6 021 thousand
To retained earnings	EEK 114 401 thousand

19 March 2010

Management and Supervisory Board Signatures

Management Board:

Kaido Simmermann
Chairman

Priit Haller

Supervisory Board:

Tõnis Haavel
Chairman

Tõnis Palts

Gunnar Kraft

Tõnu Kõiv

Peep Aru

Urmas Sõõrumaa

Viljo Vetik

Janno Rokk