AS Eesti Raudtee

Annual report
for the year ended
31 December 2012
(Translation of the Estonian original)

Contacts:

Legal address:	Toompuiestee 35, 15073 Tallinn, Republic of Estonia
Commercial register number:	11575238
Beginning of financial year:	1 January 2012
End of financial year:	31 December 2012
Telephone:	(+372) 615 8724
Fax:	(+372) 615 8588
E-mail:	evr@evr.ee
Corporate website:	www.evr.ee
Auditor:	KPMG Baltics OÜ
Business line:	Management of rail infrastructure

Contents

Review of operations

On 14 January 2009, AS Eesti Raudtee established, through division of the company, AS EVR Infra (a rail infrastructure company) and AS EVR Cargo (a rail cargo transport company). Following the signature of a division agreement on 11 June 2012, AS Eesti Raudtee was divided, by way of division by acquisition, and transferred all its assets along with associated rights and obligations to AS EVR Infra and AS EVR Cargo. It was agreed in the division agreement that for accounting purposes the date of the division was 1 January 2012 and that AS EVR Infra would change its business name for AS Eesti Raudtee. The sole shareholder of AS Eesti Raudtee (formerly AS EVR Infra) is the Republic of Estonia.

AS Eesti Raudtee is a rail infrastructure company responsible for the construction, management and maintenance rail infrastructure including rail traffic control. In addition, AS Eesti Raudtee carries out the duties of the railway administration.

In 2012, the infrastructure operated by AS Eesti Raudtee was used to transport 26.1 million tonnes of freight, a 14.4% decrease compared with the previous year. The company expects freight volumes to continue declining in 2013. At end of 2012, the rail infrastructure of AS Eesti Raudtee was used by two freight transport companies, AS EVR Cargo and AS E.R.S, and three passenger transport companies. Since freight transport volumes dropped to recent years' lowest levels, particularly in the second half of the year, the rail infrastructure access charge (the charge for use of rail infrastructure) rose to the maximum level permitted by current calculation methods. This meant that AS Eesti Raudtee was unable to earn a reasonable operating profit, which is required for operating sustainably in the long term. In light of this, it is essential for AS Eesti Raudtee to further streamline its operations and cut infrastructure management costs so that it would remain a sustainable and competitive company in the framework of existing regulations.

As at 31 December 2012, the company employed 890 people (2011: 833 people).

In 2012, the company invested a total of 40.2 million euros, including EU support of 17.9 million euros. The key investments of the year were co-financed with allocations from the EU structural funds (the Cohesion Fund and the European Regional Development Fund). Investments in the reconstruction of the rail network on the Rail Baltica route totalled 6.85 million euros, of which 2.3 million euros was received from the Cohesion Fund. Investments in adjusting passenger platforms to the EU height requirements amounted to 9.7 million euros, of which 5.0 million euros was received from the Cohesion Fund. Investments in ensuring passenger safety totalled 1.5 million euros, of which 1.4 million euros was received from the European Regional Development Fund. Investments in the reconstruction of the electric traction network on the Vasalemma - Tallinn, Keila - Paldiski and Klooga - Kloogaranna lines totalled 8.95 million euros, of which 4.1 million euros was received from the Cohesion Fund. New projects included major overhaul of the Tallinn - Paldiski and Keila - Riisipere lines, financed with 5.1 million euros received from the Cohesion Fund.

In addition to the above, the company's property, plant and equipment increased by 26.4 million euros through assets transferred to it through the division transaction as at 1 January 2012.

In 2013, AS Eesti Raudtee intends to continue investing in rail infrastructure with the assistance of allocations from the EU structural funds. The key projects of the year include reconstruction of the electric traction network on the Vasalemma - Tallinn, Keila – Paldiski, and Klooga - Kloogaranna lines and general overhaul of railway network on the Tallinn - Paldiski and Keila - Riisipere lines so as to be ready to provide services to the new passenger trains of AS Elektriraudtee. Altogether, the investments planned for 2013 total 36.9 million euros, of which 14.4 million euros will be contributed from the EU structural funds.

Financial indicators	2012	2011	2010	2009
EBITDA (earnings before interest, taxes, depreciation and amortisation), EUR millions	35.4	35.3	28.6	24.4
EBITDA interest coverage ratio (EBITDA / interest expense)	27.6	18.5	9.3	4.6
Interest-bearing loans to equity ratio	36%	91%	95%	123%

In 2012, AS Eesti Raudtee did not conduct any research and development projects and none have been planned for 2013.

Dividend distributions are at the discretion of the annual general meeting of AS Eesti Raudtee, whose functions are carried out by the Minister of Economic Affairs and Communications.

Corporate governance report

The division of AS Eesti Raudtee (group) through division by acquisition, which resulted in the establishment of two separate state-owned companies, AS EVR Infra and AS EVR Cargo, was entered in the Commercial Register on 3 September 2012. Following the division, AS EVR Infra changed its business name for AS Eesti Raudtee. Article 5.1 of the new articles of association of AS Eesti Raudtee (formerly AS EVR Infra), which took effect on 3 September 2009, provides that the company has to observe the Corporate Governance Recommendations (the 'CGR') promulgated by the Tallinn Stock Exchange.

Under section 88(1)10) of the State Assets Act, from 3 September 2012, i.e. from the date it became a state-owned company and its new articles of association took effect, the corporate governance of AS Eesti Raudtee has to comply with the CGR and the company has to describe compliance with the CGR in its corporate governance report, which is part of its annual report. Accordingly, this corporate governance report covers the period 3 September 2012 to 31 December 2012.

General meeting

During the period 3 September 2012 to 31 December 2012 the sole shareholder of AS Eesti Raudtee was the Republic of Estonia. Therefore, there is no need to discuss in this report matters relating to compliance with the CGR in respect of equal treatment of all shareholders

During the period 3 September 2012 to 31 December 2012 the sole shareholder of AS Eesti Raudtee whose representative is the Minister of Economic Affairs and Communications, adopted five resolutions, by which it determined the procedure for remunerating the members of the supervisory board of AS Eesti Raudtee, appointed an auditor for the financial statements of AS Eesti Raudtee for 2012, amended and approved the new wording of the company's articles of association, removed two members from the supervisory board, and appointed three new members to the supervisory board.

Supervisory board

The supervisory board of AS Eesti Raudtee has four to eight members. Under section 81(2) of the State Assets Act and article 5.5.3 of the articles of association of AS Eesti Raudtee, the Minister of Economic Affairs and Communications elects one half of the members of the supervisory board directly and the other half based on the proposal of the Minister of Finance. The members of the supervisory board elect the chairman of the supervisory board who is responsible for organising the work of the supervisory board from among the members of the supervisory board that have been elected to the board based on the resolution of the sole shareholder.

During the period 3 September 2012 to 31 December 2012, the composition of the supervisory board of AS Eesti Raudtee was as follows: Taavi Madiberk (chairman of the supervisory board), Peep Aru (until 25 October 2012), Janno Rokk (until 15 November 2012), Aivar Sõerd (from 25 October 2012), Jüri Raatma (from 15 November 2012), and Urmas Sõõrumaa (from 14 December 2012).

In line with section 80 of the State Assets Act, a person is eligible for election as a member of the supervisory board if he or she has the knowledge and experience required for fulfilling the responsibilities of a member of the supervisory board in light of the operating and financial framework of the company and the ability to act with due care and in accordance with the requirements of the position and the objectives and interests of the company, as well as the need for ensuring adequate protection of the interests of the state as the company's sole shareholder.

In conformity with the company's articles of association, a person is not eligible for election as a member of the company's governing body if his or her wrongful act or failure to act has brought about a person's bankruptcy, has caused damage to a legal person, or has resulted in the revocation of a legal person's activity licence, if he or she is subject to a prohibition on business or has been punished for an economic criminal offence, criminal official misconduct or a criminal offence against property or if he or she has significant business interests connected with the company.

The powers of the supervisory board are outlined in the company's articles of association. The supervisory board of AS Eesti Raudtee oversees the activity of the company's management board, participates in planning the company's operations and organising its management and decides transactions that fall beyond the scope of daily business operations. The supervisory board acts independently and in the interests of the company and its shareholder.

The principal work format of the supervisory board is a meeting. During the period 3 September 2012 to 31 December 2012 the supervisory board met four times and adopted five resolutions without calling a meeting. At four meetings, the supervisory board heard the report of the management board on the company's financial position and business strategy. The management board informs the supervisory board about all significant matters and all transactions that cost in excess of 150,000 euros and requests the consent of the supervisory board for all transactions where the one-off or annual cost exceeds 400,000 euros.

The agenda and materials of a meeting of the supervisory board are sent to the members of the supervisory board seven workdays before the day of the meeting. This provides the members of the supervisory board with sufficient time for forming an opinion on all items on the agenda.

The supervisory board has formed an audit committee and a safety committee.

The audit committee, which consists of three to five members, is responsible for participating in an advisory capacity in conducting supervision by monitoring and analysing the processing of financial information, the effectiveness of risk management and internal controls, the process of preparing and auditing the financial statements, the independence of the company's auditor and the company's legal and regulatory compliance.

During the period 3 September 2012 to 31 December 2012, the members of the audit committee were Heikko Mäe (chairman), Kuldar Ojang, Taavi Madiberk, Peep Aru (until 2 November 2012), and Janno Rokk (until 30 November 2012).

The safety committee, which has three to five members, is responsible for participating in an advisory capacity in conducting supervision over safety-related matters, particularly those arising from the specific nature of the rail business. Ensuring safety is one of the key priorities of the company's daily operation, where all efforts are made to prevent dangerous traffic situations and emergencies, to ensure the provision of safe rail infrastructure and organisation of safe traffic for all contractual rail transport companies, and to ensure the safety of the company's staff and the general public.

During the period 3 September 2012 to 31 December 2012, the members of the safety committee were Peep Aru (until 2 November 2012, was also the chairman), Kristi Kuldma and Kalev Timberg.

The sole shareholder has established the rates and procedure for remunerating the members of the supervisory board. The remuneration of the chairman of the supervisory board is higher than that of the other members. The members of the supervisory board who did not participate in the adoption of resolutions of the supervisory board do not receive remuneration for the month in which the meeting took place. According to the remuneration procedure, the members of the supervisory board that are also members of the audit committee and the safety committee are paid additional remuneration of 25% of the remuneration of a member of the supervisory board provided they participate in meetings of the committee. The remuneration of the chairmen of the audit and safety committees is 50% higher than that of the committee members. According to the resolution of the supervisory board, the remuneration of a member of the audit committee who is not a member of the supervisory board is 540 euros per month and the remuneration of the chairman of the audit committee who is not a member of the supervisory board is 770 euros per month.

The members of the supervisory board are not entitled to any termination benefits. During the period 3 September 2012 to 31 December 2012, the members of the supervisory board were not paid any additional remuneration.

Since the composition of the supervisory board changed during the period, Peep Aru participated in less than half of the meetings of the supervisory board and Urmas Sõõrumaa, who was elected to the supervisory board as from 14 December 2012, did not participate in any meetings of the supervisory board.

The members of the supervisory board avoid conflicts of interest in their activities, do not use business offerings made to the company in their personal interest and act in the best interests of the company and the state as the company's shareholder. The members of the supervisory board observe the prohibition on competition and do not engage in business activities in the same field as the company.

Management board

The management board of AS Eesti Raudtee runs the company and represents it in its daily operations independently, in accordance with the provisions of the law and the company's articles of association. The management board acts in a manner that is the most expedient in economic terms to ensure the company's sustainable development consistent with targets set. The management board ensures that the company meets all effective legal and regulatory requirements and organises relevant control and reporting.

In line with article 6 of the articles of association, the company may be represented in any legal proceedings by either the chairman of the management board acting alone or two other members of the management board acting jointly.

During the period 3 September 2012 to 31 December 2012, the management board of AS Eesti Raudtee had three members, whose areas of responsibility are specified and obligations and responsibilities are described in the agreements signed with them.

The chairman of the management board Ahti Asmann manages and represents the company as the CEO and organises the work of the management board. Sergei Fedorenko is a member of the management board responsible for rail traffic in the capacity of Traffic Director and Arvo Smiltinš is a member of the management board responsible for infrastructure in the capacity of Infrastructure Director.

AS Eesti Raudtee complies with article 2.2.2 of the CGR in that no member of its management board is on the management board of more than two companies or a chairman of the management board of any other company.

The remuneration rates and termination benefits of the members of the management board are outlined in their board member agreements, which have been discussed and approved by the supervisory board. A member of the management board is entitled to termination benefits only if he or she is removed by the supervisory board before the expiry of the term of office and the benefits paid do not exceed the board member's three months' remuneration. A member of the management board is not eligible to termination benefits if he or she is removed with due cause because of breaching the law, the company's articles of association, the board member agreement or failing to discharge his or her responsibilities.

In assigning additional remuneration to members of the management board, the supervisory board takes into account the company's financial indicators as well as the board members' performance and their personal contribution to achieving the financial and operating targets set by the shareholder. The total additional remuneration provided to a member of the management board during a financial year may not exceed the board member's four months' remuneration. During the period 3 September 2012 to 31 December 2012, the members of the management board were not paid additional remuneration.

In line with article 5.5.6 of the articles of association of AS Eesti Raudtee, decisions pertaining to transactions with the members of the management board, the terms and conditions of those transactions, and legal disputes with the members of the management board are taken by the supervisory board. For conducting a transaction or holding a legal dispute, the supervisory board appoints a representative of the company. On 3 September 2012, a board member agreement was signed with Ahti Asmann. During the period 3 September 2012 to 31 December 2012, there were no other transactions between the company and the members of its management board or persons close to or connected with them.

The members of the management board do not engage in business activities in the same field as the company and do not have other official, work-related duties besides their board member responsibilities.

The company’s management board members and employees do not demand or accept for personal gain money or any other benefits from third parties in connection with their work and they do not grant third parties unlawful or unjustified benefits on behalf of the company.

Disclosure of information

AS Eesti Raudtee discloses on its website information its shareholder, the composition of the supervisory board, the composition and responsibilities of the audit committee and safety committee formed by the supervisory board, and the composition of the management board.

The company does not disclose on its website information on the time of the general meeting or other information regarding the general meeting because the company has only one shareholder that is sent the materials required for adopting resolutions on the agenda items along with the notice of the general meeting.

The company discloses on its website its Corporate Governance Report, its articles of association, information on its auditor and its annual report.

Financial reporting and auditing

The financial statements of AS Eesti Raudtee are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The annual report for 2012, which was prepared by the management board, has been checked by the auditor and the supervisory board.

Based on a duly passed resolution, the sole shareholder appointed audit firm KPMG Baltics OÜ and authorised public accountant Andres Root as auditors of the company’s financial statements for 2012. The main terms and conditions of the audit services agreement (including the audit fee, the effective term of the agreement, the audit schedule and the auditor’s responsibilities) were approved by the supervisory board.

Annual financial statements

Balance sheet

In thousands of euros	Note	31 December 2012	31 December 2011	1 January 2011
ASSETS				
Non-current assets				
Property, plant and equipment	3	221,650	210,604	168,023
Investment property	4	245	0	0
Long-term receivables		1,318	22	23
Total non-current assets		**223,213**	**210,626**	**168,046**
Current assets				
Non-current assets held for sale	5	201	0	0
Inventories	6	10,424	12,149	11,400
Trade receivables	7	8,038	3,679	8,804
Other receivables	7	6,332	7,870	9,421
Cash and cash equivalents		321	1,501	6,058
Total current assets		**25,316**	**25,199**	**35,683**
TOTAL ASSETS		**248,529**	**235,825**	**203,729**
EQUITY AND LIABILITIES				
Equity				
Share capital	8	70,303	70,303	70,303
Statutory capital reserve	8	1,879	939	265
Revaluation reserve	8	323	0	0
Retained earnings of prior periods		74,218	18,393	8,084
Profit for the year		16,187	18,807	13,476
Total equity		**162,910**	**108,442**	**92,128**
Non-current liabilities				
Loans and borrowings	10	48,665	67,545	75,433
Derivatives	9	1,320	0	0
Provisions	11	317	199	164
Total non-current liabilities		**50,302**	**67,744**	**75,597**
Current liabilities				
Trade and other payables	12	13,911	20,711	14,009
Tax liabilities		842	540	482
Loans and borrowings	10	10,222	31,335	12,464
Provisions	11	25	22	2,332
Deferred government grants	19	10,317	7,031	6,717
Total current liabilities		**35,317**	**59,639**	**36,004**
Total liabilities		**85,619**	**127,383**	**111,601**
TOTAL EQUITY AND LIABILITIES		**248,529**	**235,825**	**203,729**

Statement of comprehensive income

In thousands of euros	Note	2012	2011
REVENUE AND OTHER INCOME			
Revenue	13	65,919	60,246
Other income	13	13,074	6,644
Total revenue and other income		**78,993**	**66,890**
EXPENSES			
Goods, materials and services used	14	16,854	17,124
Other operating expenses	14	6,583	3,730
Personnel expenses		15,893	12,958
Depreciation and impairment losses	3	16,602	13,413
Other expenses	14	4,301	-2,234
Total expenses		**60,233**	**44,991**
OPERATING PROFIT		**18,760**	**21,899**
Interest expense	15	-1,278	-1,912
Interest income	15	9	136
Other finance costs	15	-600	-653
Total finance income and costs		**-1,869**	**-2,429**
PROFIT BEFORE INCOME TAX		**16,891**	**19,470**
Income tax expense on dividends		-704	-663
PROFIT FOR THE YEAR		**16,187**	**18,807**
Total other comprehensive income		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**16,187**	**18,807**

Statement of changes in equity

In thousands of euros	**Share capital**	**Statutory capital reserve**	**Revaluation reserve**	**Retained earnings**	**Total**
Balance as at 31 December 2009	**70,303**	**0**	**0**	**8,349**	**78,652**
Profit for the year	0	0	0	13,476	**13,476**
Increase of statutory capital reserve	0	265	0	-265	**0**
Balance as at 31 December 2010	**70,303**	**265**	**0**	**21,560**	**92,128**
Profit for the year	0	0	0	18,807	**18,807**
Increase of statutory capital reserve	0	674	0	-674	**0**
Total distributions to owners of the Company,	0	0	0	-2,493	**-2,493**
of which dividends				-2,493	-2,493
Balance as at December 2011	**70,303**	**939**	**0**	**37,200**	**108,442**
Profit for the year				16,187	**16,187**
Effect of division			323	40,605	**40,928**
Increase of statutory capital reserve		940		-940	**0**
Total distributions to owners of the Company,				-2,647	**-2,647**
of which dividends				-2,647	-2,647
Balance as at December 2012	**70,303**	**1,879**	**323**	**90,405**	**162,910**

The change in equity resulting from the division is explained in note 20 Division transaction.

Statement of cash flows

In thousands of euros	Note	2012	2011
Cash flows from operating activities			
Operating profit		18,760	21,899
Adjustments for:			
Depreciation and impairment losses	3	16,602	13,413
Gains and losses on sale of property, plant and equipment	13	-12,058	-32
Loss from termination of finance leases	14	3,923	0
Loss from write-off of property, plant and equipment	14	5	0
Total adjustments		8,472	13,381
Change in receivables and prepayments made		-4,862	4,801
Change in inventories		1,783	-749
Change in payables and prepayments received		-1,728	-2,470
Interest received		9	156
Interest paid		-1,821	-2,538
Income tax paid on dividends		-704	-663
Net cash from operating activities		**19,909**	**33,817**
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		-47,704	-67,420
Proceeds from sale of property, plant and equipment		10,283	41
Repayment of loans provided		1	1
Net cash used in investing activities		**-37,420**	**-67,378**
Cash flows from financing activities			
Loans received	10	5,000	23,100
Repayment of loans received		-6,583	-12,197
Change in the overdraft balance		-608	79
Payment of finance lease principal		-703	0
Proceeds from government grants received	19	20,140	20,540
Dividends paid		-2,647	-2,493
Net cash from financing activities		**14,599**	**29,029**
Net cash flow		**-2,912**	**-4,532**
Cash received on division		**1,763**	**0**
Cash and cash equivalents at beginning of year		1,501	6,058
Change in cash and cash equivalents		-2,912	-4,532
Effect of exchange rate fluctuations		-31	-25
Cash and cash equivalents at end of year		**321**	**1,501**

Notes to the annual financial statements

The reporting entity

AS Eesti Raudtee (the ‘Company’) is a company incorporated and domiciled in the Republic of Estonia. The address of the Company’s registered office is Toompuiestee 35, Tallinn.

The company AS EVR Infra was registered on 14 January 2009. On 3 September 2012, AS EVR Infra was renamed AS Eesti Raudtee.

The management board authorised the financial statements for the year ended 31 December 2012 for issue on 19 March 2013. In accordance with the Estonian Commercial Code, the annual report, which has been prepared by the management board and approved by the supervisory board, requires final approval from the annual general meeting.

The Company’s core business is management of rail infrastructure.

Note 1: Significant accounting policies

1.1 Basis of preparation and measurement

These financial statements have been prepared on the historical cost basis except for investment properties and derivative financial instruments, which are measured at their fair values.

The Company’s financial statements for 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). These are the Company’s first IFRS EU financial statements and the Company has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* in preparing them. The Company’s previous financial statements were prepared in accordance with the Estonian generally accepted accounting principles (the Estonian GAAP). The effects of transition to IFRS EU on the Company’s financial position are explained in detail in note 21 to the financial statements. The transition to IFRS EU did not have any significant effect on the Company’s financial position. Therefore, the Company has not presented in the notes to the financial statements the comparative opening IFRS EU balance sheet as at 1 January 2010.

(a) Application of new and amended financial reporting standards and interpretations
The new and amended standards and interpretations that were effective for the first time for the financial year beginning on 1 January 2012 did not have a material impact on the Company’s financial statements.

(b) New and amended standards and interpretations not yet adopted

The EU has adopted a number of new standards and interpretations that were not yet effective as at 31 December 2012 and have therefore not been applied in preparing these financial statements. Those of them are expected to have a material impact on the Company's financial statements are listed below.

- *Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*

  The amendments are effective for annual periods beginning on or after 1 January 2013 and are to be applied retrospectively.

  The Amendments contain new disclosure requirements for financial assets and liabilities that are:
    - offset in the statement of financial position; or
    - subject to master netting arrangements or similar agreements.

- *IFRS 13 Fair Value Measurement*

  The standard is effective prospectively for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

  IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.
  The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information enabling financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

- *Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*

  The amendments are effective for annual periods beginning on or after 1 July 2012 and are to be applied retrospectively. Earlier application is permitted.

  The amendments:

    - Require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections.

    - Change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used.

- *IAS 19 (2011) Employee Benefits*

  The amendment is effective for annual periods beginning on or after 1 January 2013 and is to be applied retrospectively. Transitional provisions apply. Earlier application is permitted.

  The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on the rate used to discount the defined benefit obligation.

- *Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

  The amendments are effective for annual periods beginning on or after 1 January 2014 and are to be applied retrospectively. Earlier application is permitted, however the additional disclosures required by Amendments to *IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* must also be made.

  The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.
  The amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

  - not contingent on a future event; and
  - enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

Other new and amended standards and interpretations not yet adopted are not expected to have a material effect on the Company’s financial statements.

The Company’s financial statements are presented in euros, which is the Company’s functional and presentation currency, rounded to the nearest thousand. For settlement purposes, the Company uses also other currencies – mainly the US dollar (USD) and the Swiss franc (CHF).

1.2 Critical accounting estimates

The preparation of financial statements in conformity with IFRS EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The following management's estimates and judgements may have an impact on the Company's financial statements:

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

Management has estimated the useful lives of items of property, plant and equipment. The estimates have been made based on historical experience, taking into account the assets' utilisation intensity and future prospects. The outcomes of the estimation are presented in note 3.

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

The Company tests its items of property, plant and equipment for impairment on a regular basis by determining their recoverable amounts and writes the items down when necessary. The recoverable amounts of items of property, plant and equipment are identified using management's estimates of future cash flows (the cash flows from the use or sale of the assets and the cash flows required for maintaining and using the assets).

Estimates are made based on forecasts of developments in the general economic environment, freight transport volumes, use of the rail infrastructure and the prices of services provided. The impairment loss identified during the reporting period is disclosed in note 3.

c) Estimation of provisions and contingent assets and liabilities

Circumstances relevant for the estimation of provisions are described in note 11 Provisions.

d) Classification of leases

Circumstances relevant for the classification of leases are described in note 17.

1.4 Foreign currency transactions

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

1.5 Property, plant and equipment

The Company has the following classes of property, plant and equipment:
- Land and buildings – land, buildings, structures, railway network, transmission lines
- Plant and equipment – rolling stock, cars, computers, equipment
- Other equipment and fixtures – tools, office equipment
- Assets under construction

Significant parts of items of property, plant and equipment that have different useful lives are accounted for separately.

The land under the railway network belongs to the state and has not been transferred to the Company. The Company may use the land for provision of railway services under the right of superficies (Directive no. 257 of the Ministry of Transport and Communications of the Republic of Estonia of 20 October 2000) for 50 years and may extend the term of use to 99 years.

Assets under construction comprise the costs incurred in connection with improvements to existing items of property, plant and equipment and new items of property, plant and equipment up to the date of their acceptance.

Items of property, plant and equipment are carried at cost less any accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price, any non-refundable purchase taxes and other costs directly attributable to the implementation of the asset.

The costs of improvements made to items of property, plant and equipment, which can be measured reliably and will participate in generating future economic benefits for the Company, are capitalised. The costs relating to such improvements are either added to the carrying amount of the underlying asset or are recognised as separate items of property, plant and equipment. Where necessary, the useful life of the asset is adjusted.

Useful lives of items of property, plant and equipment

Items of property, plant and equipment are depreciated using the straight-line method over their estimated useful lives. The following useful lives are assigned:

Asset class	Years
Buildings	15 - 100
Transmission lines	7 - 30
Railway network	10 - 95
Structures	5 - 40
Rolling stock	7 - 32
Equipment	3 - 40
Cars	4 - 12
Office equipment and computers, fixtures and fittings, and tools	3 - 20

Land is not depreciated. Improvements to items of property, plant and equipment are depreciated at the same rate as other assets belonging to the same class of property, plant and equipment.

The depreciation methods, useful lives and residual values of items of property, plant and equipment are reviewed annually.

1.6 Investment property

Investment property is property held by the owner, or the lessee under a finance lease, to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost, which includes all transaction charges that are directly attributable to its acquisition.

At each reporting date, investment properties are measured to their fair value using the assistance of external professional real estate appraisers. Gains and losses from changes in fair value are recognised in profit or loss in the period in which they arise.

When an item of property, plant and equipment is reclassified to investment property, any positive difference at the date of the reclassification between the asset’s fair value and carrying amount is recognised in equity and any negative difference is recognised as an expense. When an investment property is reclassified to some other asset class, it is subsequently accounted for using the accounting policies applicable to that asset class.

1.7 Non-current assets held for sale

Non-current assets held for sale, i.e. items of property, plant and equipment whose sale in the next financial year is highly probable, are classified as current assets and measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets held for sale are not depreciated.

1.8 Inventories

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

1.9 Financial instruments

Non-derivative financial instruments

When a financial instrument is recognised initially, it is measured at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the instrument. Purchases and sales of financial assets are accounted for using trade date accounting, i.e. at the date that the Company commits itself to purchase or sell the asset.

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or the Company transfers the contractual rights to receive the cash flows of the financial asset through a transaction by which it transfers substantially all the risks and rewards of ownership of the financial asset. The rights created or retained in connection with a transferred financial asset are recognised separately as assets or liabilities.

The Company derecognises a financial liability when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets

The Company's financial assets comprise loans, receivables, cash and cash equivalents. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified as current assets except for items that are expected to be realised within more than 12 months after the reporting date. The latter are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents. When those assets are recognised initially, they are measured at their fair value plus any directly attributable transaction costs. After initial recognition, trade and other receivables are measured at their amortised cost. Trade receivables are measured at amounts that are expected to be recoverable. Receivables from each customer are assessed for collectability separately, taking into account the information available on the customer's creditworthiness.

Doubtful (impaired) receivables are written down to amounts that are expected to be recoverable Irrecoverable receivables are written off the balance sheet.

Cash and cash equivalents comprise cash on hand, balances on current accounts, short-term term deposits and other highly liquid investments with maturities of up to three months except for bank overdrafts. In the balance sheet, bank overdrafts are classified as loans and reported within short-term borrowings.

Financial liabilities

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

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

Non-current liabilities comprise liabilities that are due to be settled within more than one year after the reporting date. All other liabilities are classified as current.

The vacation pay liability is recognised in the period in which it arises, i.e. when the employee's right to demand payment is created. Vacation pay earned by employees and changes in it are recognised as an expense in the statement of comprehensive income and as a current liability in the balance sheet.

Trade payables are measured at cost.

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

Derivative financial instruments

The Company uses derivatives to mitigate its interest rate and currency risks. Derivative financial instruments are recognised initially at their fair values and are subsequently re-measured to fair value at each reporting date. Gains and losses from changes in fair value are recognised as income and expenses respectively in the period in which they arise.

1.10 Impairment of assets

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

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

The recoverable amount of a receivable measured at amortised cost is calculated as the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Current receivables are not discounted.

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

An impairment loss recognised for a receivable measured at amortised cost is reversed when the asset's recoverable amount increases in a subsequent period and the increase can be related to an event occurring after the impairment loss was recognised.

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

The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years.

1.11 Revenue

Infrastructure access charges (charges for use of infrastructure) are calculated on an accrual basis in each calendar month and relevant revenue is recognised based on use of the infrastructure per day.

Fees received for connection to infrastructure are recognised as revenue when they do not include deferred income (income for future services) but only compensation for the costs incurred on enabling the connection.

Revenue from renting out rolling stock and other assets is recognised on a straight-line basis over the lease term.

Revenue from the rendering of services is recognised when the service has been rendered. Prepaid contract fees and charges are recognised as revenue in proportion to related freight volumes measured in tonnes.

Interest income is recognised on an accrual basis except where collection is doubtful.

1.12 Short-term employee benefits

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

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

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

1.13 Income tax

In accordance with the Estonian Income Tax Act, which took effect on 1 January 2000, income tax is not levied on corporate earnings but on dividends and other payments that have the nature of profit distributions.

Because of the concept of taxation, the term ‘tax base of assets and liabilities’ has no economic substance and deferred tax assets and liabilities as defined in IAS 12 *Income Taxes* cannot arise.

The contingent income tax liability which would arise if all of the Company’s unrestricted equity were distributed as dividends is not recognised in the balance sheet. The maximum income tax liability that would arise if the entire unrestricted equity were distributed as dividends is disclosed in note 16.

The income tax payable on the distribution of dividends is recognised as an expense when the dividend is declared.

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

1.14 Leases

The Company as a lessee

A lease is classified as a finance lease when it transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. An asset leased under a finance lease is recognised in the balance sheet at an amount equal to its fair value or, if lower, the present value of the minimum lease payments.

Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. The lease liability (net of interest charges) is reported within current or non-current liabilities as appropriate. The interest charge is recognised as a finance cost on an accrual basis.

A lease is classified as an operating lease if the lessor retains the risks and rewards incidental to ownership. Lease payments under an operating lease (net of any incentives provided by the lessor) are recognised as an expense. All lease contracts signed by the Company can be cancelled without significant additional costs.

The Company as a lessor

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

1.15 Provisions and contingent liabilities

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

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

Restructuring provisions are recognised in the period in which the Company incurs the legal or constructive obligation.

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

The Company has to pay benefits for incapacity for work to persons that have lost their capacity for work by the fault of the Company. The benefits have to be paid over the remaining lifetime of the persons involved. The provision for relevant benefits is calculated based on the number of entitled persons, the period over which the benefits are expected to be paid and the size of the benefits (note 11).

Contingent liabilities are not recognised in the balance sheet. Instead, significant contingent liabilities are disclosed in the notes to the financial statements. Contingent liabilities whose realisation is highly unlikely are not disclosed in the notes to the financial statements.

1.16 Government grants

The Company accounts for government grants related to assets using the net method whereby the asset acquired with a government grant is recognised in the balance sheet at cost less the amount of the grant received in support of its acquisition. An asset acquired with a government grant is depreciated over its useful life.

A government grant is recognised as a liability when the grant has been received but the condition attaching to use of the grant, which assumes completing the construction of the asset, has not yet been complied with.

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

The Company accounts for government grants related to income using the gross method whereby the costs for which the grant is intended to compensate and the amount of grant received are recognised separately.

1.17 Borrowing costs

Borrowing costs (such as interest) that are 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 as incurred.

1.18 Events after the reporting date

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

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

1.19 Statement of cash flows

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

1.20 Determination of fair value

Fair value is the amount for which a transaction would be performed between knowledgeable, willing parties in an arm's length transaction.

Investment property

Fair value is determined by reference to the market value of the property. In the absence of an active market, fair value is determined based on the prices of recent transactions with similar assets or by applying the discounted cash flow method.

Derivative financial instruments

The fair values of derivative financial instruments are determined based on their quoted values as at the reporting date. Derivatives with a positive market value are classified as receivables and derivatives with a negative market value are classified as liabilities.

Note 2: Financial risk management

2.1 Financial risks

Due to the nature of its activities, the Company is exposed to a number of financial risks:

- market risk, which includes currency and interest rate risks;
- credit risk; and
- liquidity risk.

The Company's general risk management programme is focused on the unpredictability of developments in financial markets and strives to mitigate their potential negative impacts on the Company's financial performance. The greatest risk for the Company is interest rate risk.

The Company's management has adopted internal cash management regulations, which are regularly updated to ensure that the measures applied are the most appropriate. The regulations are approved by the Company's supervisory board.

Day-to-day risk management has been assigned to the treasury specialists of the Company's finance department that carry out the policies approved by the management board.

2.2 Currency risk

The Company is exposed to fluctuations in various exchange rates, particularly those relating to the US dollar (USD) and the Swiss franc (CHF).

The risk is mitigated by matching, where possible, operating income in a specific currency with expenses in the same currency.

At 31 December 2012, the Company did not have any material currency risk exposures because its liabilities were predominantly denominated in euros (note 10).

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

In thousands of currency units

	31 December 2012		31 December 2011	
	CHF	USD	CHF	USD
Cash and cash equivalents	50	1	0	0
Bank overdraft	0	0	(100)	(393)
Receivables	415	0	75	123
Liabilities	(113)	(7)	0	(36)
Net exposure	**352**	**(6)**	**(25)**	**(306)**

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

2.3 Interest rate risk

The Company's revenues and operating cash flows are not materially dependent on changes in market interest rates. The Company does not have any significant interest-bearing assets. The Company takes loans with variable interest rates systematically and uses interest rate swaps to mitigate the exposure to variability in cash flows that is attributable to future interest payments. At the reporting date, all of the Company's interest-bearing liabilities had floating interest rates. To control the duration of the loan portfolio, the Company also monitors the average interest rate reset period.

The economic effect of interest rate swaps results from the conversion of floating-rate debt into fixed-rate debt. Interest rate swaps allow the Company to take long-term floating-rate loans and to swap the loans for fixed-rate loans whose interest rates are lower than those of currently available fixed-rate loans. In an interest rate swap, the Company agrees with the counterparty to exchange, after a certain interval (usually a quarter), the difference between the fixed nominal interest rate and the floating interest rate, which is calculated on a notional principal amount.

The average interest rate of the Company's loan portfolio is set for six months. An increase of 1 percentage point in Euribor would increase the Company's interest expense by 589 thousand euros (2011: 989 thousand euros). The analysis assumes that all other variables remain constant.

In 2012, the Company's floating rate liabilities totalled 58.89 million euros (note 10) (2011: 98.88 million euros). At 31 December 2012, the underlying amount of the Company's interest rate swaps was 50 million euros (note 9) (31 December 2011: nil euros).

By the end of 2012, the Company had hedged most of the interest rate risk of its loan portfolio.

2.4 Credit risk

The Company pursues policies, which ensure that services are rendered and products are sold to those customers only whose reliability has been proven by earlier behaviour. Credit risk is mitigated by requesting prepayments from customers with whom the Company does not have a contract or whose solvency or creditworthiness is in doubt. Credit risk is also mitigated by conducting background research on the customer before a major contract is signed.

Other credit risk management methods include ongoing monitoring of the customers' settlement behaviour and timely application of suitable measures. As at the year-end, all doubtful receivables had either been written off or written down.

At the reporting date, the maximum credit risk exposure for the Company's trade receivables was as follows (by maturity):

In thousands of euros

Trade receivables by maturity	**31 December 2012**	**31 December 2011**
Not yet due	7,196	2,701
Past due 1 - 30 days	506	520
Past due 31 - 180 days	230	75
Past due 181 - 365 days	97	3
Past due more than 1 year	168	539
Total (Note 7)	**8,197**	**3,838**

At 31 December 2012, doubtful trade receivables totalled 159 thousand euros (31 December 2011: 159 thousand euros) (for further information, see note 7).

The Company's cash and cash equivalents are kept at the largest banks operating in Estonia that are owned by major Finnish, Swedish and Danish banking groups.

2.5 Liquidity risk

The Company maintains a sufficient amount of cash and liquid securities and has additional financing options through adequate committed credit lines. Because of the dynamic nature of the Company's core business, the treasury department makes every effort to keep the committed credit lines open so that the Company would have flexible financing opportunities.

The following table provides an overview of the contractual maturities of the Company's financial liabilities including estimated future interest payments as at 31 December 2012 and 2011:

In thousands of euros	**31 December 2012**						
	Carrying amount	**Contractual cash flows**	**Under 1 year**	**1 -2 years**	**2 - 5 years**	**More than 5 years**	**Note**
Bank loans	58,887	62,705	11,129	6,022	26,574	18,980	10
Trade payables	7,379	7,379	7,379				12
Interest rate swaps	1,320	1,320	54	1,266			
Other payables	4,436	4,436	4,436				12
Total	**72,022**	**75,840**	**22,998**	**7,288**	**26,574**	**18,980**	

In thousands of euros	**31 December 2011**						
	Carrying amount	**Contractual cash flows**	**Under 1 year**	**1 -2 years**	**2 - 5 years**	**More than 5 years**	**Note**
Bank loans	98,880	101,845	32,268	8,125	24,377	37,075	10
Trade payables	8,301	8,301	8,301				12
Other payables	11,824	11,824	11,824				12
Total	**119,005**	**121,970**	**52,393**	**8,125**	**24,377**	**37,075**	

2.6 Operational risks

The Company is insured against unexpected loss, damage and destruction; business interruption and associated expenses; and the claims filed against the Company by third parties. For example, the Company has insurance cover against unexpected environmental damage, the risks resulting from crime, losses resulting from management's liability (the liability of the members of the management and supervisory boards and executive staff), accidents with rescue staff, and any accident or incident of theft or vandalism involving motor vehicles.

2.7 Capital management

The Company's policy is to maintain a strong capital base so as to maintain the confidence of the capital markets. The Company has access to various credit facilities whose duration and volume allow management to carry out the investment programme designed for the next 12 months. The Company's equity is sufficient for enabling the Company to raise additional debt capital if necessary. Under its loan agreements, the Company has undertaken to maintain its equity to assets ratio at 35% or above. At 31 December 2012, the Company's equity to assets ratio was 65.5%.

2.8 Fair values

The Company's management is of the opinion that the fair values of all of the Company's financial assets and liabilities correspond to the carrying amounts of those assets and liabilities.

In thousands of euros	**31 December 2012**					
	Loans and receivables	**Financial liabilities at fair value through profit or loss**	**Other financial liabilities**	**Carrying amount**	**Fair value**	**Note**
Loans and receivables	13,169	0	0	13,169	13,169	7
Cash and cash equivalents	321	0	0	321	321	
Total	13,490	0	0	**13,490**	**13,490**	
Interest rate swaps	0	1,320	0	1,320	1,320	9
Loans and borrowings	0	0	58,887	58,887	58,887	10
Trade and other payables*	0	0	10,385	10,385	10,385	12
Total	**0**	**1,320**	**69,272**	**70,592**	**70,592**	

In thousands of euros	**31 December 2011**					
	Loans and receivables	**Financial liabilities at fair value through profit or loss**	**Other financial liabilities**	**Carrying amount**	**Fair value**	**Note**
Loans and receivables	10,687	0	0	10,687	10,687	7
Cash and cash equivalents	1,501	0	0	1,501	1,501	
Total	12,188	0	0	**12,188**	**12,188**	
Loans and borrowings	0	0	98,880	98,880	98,880	10
Trade and other payables*	0	0	17,005	17,005	17,005	12
Total	**0**	**0**	**115,885**	**115,885**	**115,885**	

* Includes trade payables, payables to employees, interest payable and other accrued expenses

At 31 December 2012, financial liabilities, which had been classified to Level 2 in the IFRS fair value hierarchy, totalled 1,320 thousand euros.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Valuation techniques are applied relying as much as possible on observable market inputs and as little as possible on the Company's own estimates and assessments. An instrument is classified to Level 2 when all significant inputs that are required for measuring its fair value are observable.

Note 3: Property, plant and equipment

In thousands of euros	**Land and buildings**	**Plant and equipment**	**Other equipment and fixtures**	**Assets under construction and prepayments**	**Total**
At 31 December 2010					
Cost	220,999	45,828	1,252	8,887	276,966
Accumulated depreciation	-83,321	-24,554	-977	-91	-108,943
Carrying amount	**137,678**	**21,274**	**275**	**8,796**	**168,023**
Year ended 31 December 2011					
Cost					
Additions	0	859	46	73,469	74,374
Reclassification	65,247	13,195	0	-78,442	0
Disposals	-708	-347	-55	0	-1,110
Government grants received	-18,371	0	0	0	-18,371
Depreciation					
Depreciation and impairment losses	-10,218	-3,130	-65	0	-13,413
Depreciation on disposals	708	338	55	0	1,101
Movements in 2011	**36,658**	**10,915**	**-19**	**-4,973**	**42,581**
At 31 December 2011					
Cost	267,167	59,535	1,243	3,914	331,859
Accumulated depreciation	-92,831	-27,346	-987	-91	-121,255
Carrying amount	**174,336**	**32,189**	**256**	**3,823**	**210,604**
Year ended 31 December 2012					
Cost					
Acquisition through division	993	25,375	80	0	26,448
Additions	15	967	21	39,201	40,204
Assets transferred by the owner	0	0	0	2,933	2,933
Reclassification	33,089	4,747	0	-37,836	0
Disposals	-961	-25,312	-59	0	-26,332
Government grants received	-17,912	0	0	0	-17,912
Depreciation					
Depreciation and impairment losses	-11,873	-4,647	-82	0	-16,602
Depreciation on disposals	961	1,287	59	0	2,307
Movements in 2012	**4,312**	**2,417**	**19**	**4,298**	**11,046**
At 31 December 2012					
Cost	282,391	65,312	1,285	8,212	357,200
Accumulated depreciation	-103,743	-30,706	-1,010	-91	-135,550
Carrying amount	**178,648**	**34,606**	**275**	**8,121**	**221,650**

Improvements to property, plant and equipment capitalised in 2012 totalled 19,924 thousand euros (2011: 60,071 thousand euros), of which 15,177 thousand euros (2011: 46,876 thousand euros) was recognised in the class of Land and buildings and 4,747 thousand euros (2011: 13,195 thousand euros) was recognised in the class of Plant and equipment.

In 2012, the carrying amount of infrastructure was written down by 672 thousand euros. The figure comprises the following items: write-down of the railway network by 24 thousand euros due to reconstruction work on the Rail Baltica route, write-down of passenger platforms by 282 thousand euros due to reconstruction, and write-down of the electric traction networks by 366 thousand euros. The write-down was recognised within Depreciation and impairment losses.

At 31 December 2012, no assets of the Company were pledged as loan collateral.

Note 4: Investment property

At 31 December 2012, the carrying amount of investment property was 245 thousand euros. Investment property was re-measured to fair value as at the reporting date by a recognised real estate expert. Based on the valuation results, the carrying amount of investment property did not change compared with 31 December 2011.

Investment property consists of a plot of land of 9,481 square metres, which has belonged to the Company since 17 November 2008. The property has been leased out. Rental income for 2012 totalled 18 thousand euros (2011: 15 thousand euros).

Note 5: Non-current assets held for sale

In thousands of euros

	31 December 2012	31 December 2011
Buildings, structures (carrying amount)	201	0
Total non-current assets held for sale	**201**	**0**

As at 31 December 2012, non-current assets held for sale comprised three buildings with a total carrying amount of 201 thousand euros. The Company intends to sell the buildings in 2013.

Note 6: Inventories

In thousands of euros	31 December 2012	31 December 2011
Infrastructure inventories and materials	10,307	11,906
Other inventories	117	80
Prepayments for inventories	0	163
Total inventories	**10,424**	**12,149**

Note 7: Receivables

In thousands of euros	31 December 2012	31 December 2011
Trade receivables	8,197	3,838
Allowance for doubtful receivables	-159	-159
Total trade receivables	**8,038**	**3,679**
Government grants receivable	5,130	7,005
Miscellaneous receivables	501	3
Prepaid taxes	461	743
Prepaid expenses	240	119
Accrued income	0	0
Total other receivables	**6,332**	**7,870**
Total receivables	**14,370**	**11,549**
Movements in the allowance for doubtful receivables		
At beginning of the year	**-159**	**-3,457**
Receivables considered doubtful during the year	-1	-16
Irrecoverable receivables written off during the year	0	372
Recovery of receivables considered doubtful in prior periods	1	2,942
At end of the year	**-159**	**-159**

Note 8: Equity

8.1 Share capital

At 31 December 2012, the Company's share capital amounted to 70,303 thousand euros and was made up of 70,302,814 ordinary shares of the same class and a par value of 1 euro each. All shares have been fully paid for.

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

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

Dividends per share

In thousands of euros	**2012**	**2011**
Dividends declared and paid during the year	2,647	2,493
Dividends per share (in euros)	0.04	0.04

8.2 Statutory capital reserve

The statutory capital reserve is increased on an annual basis with transfers equal to 5% of profit for the year until the reserve amounts to 10% of the registered share capital. The statutory capital reserve may not be distributed as dividends but it may be used for increasing share capital and for covering losses.

In 2012, the capital reserve was increased by 940 thousand euros (2011: 674 thousand euros).

8.3 Revaluation reserve

The revaluation reserve comprises the effects of the revaluation to fair value of the plot of land, which has been reclassified to investment property. The reserve will be transferred to income when the asset is sold.

Note 9: Derivative financial instruments

As at 31 December 2012, the Company had three effective interest swaps for fixing the interest rates of long-term loans with a nominal value of 50,000 thousand euros. All terms and maturities of the interest rate swaps match the repayment schedules of the hedged loans. The instruments are used for hedging the cash flow risk but they do not qualify for hedge accounting as defined in IFRS.

31 December 2012
In thousands of euros

	Maturity date	**Underlying notional amount**	**Negative market value at 31 December 2012**
Interest rate swaps (EUR)	2014	40,000	1,266
Interest rate swap (EUR)	2013	10,000	54
Total		**50,000**	**1,320**
Total derivative financial instruments		**50,000**	**1,320**

The interest rate swaps were acquired on the division of the Company's former parent at the date that was agreed as the date of division for accounting purposes, i.e. on 1 January 2012. At the date of acquisition, the interest rate swaps had a negative market value of 1,723 thousand euros.

In 2012, the change in the fair value of the interest rate swaps amounted to 403 thousand euros.

Note 10: Loans and borrowings

Loans and borrowings as at 31 December 2012
In thousands of euros

	Balance at 31 Dec 2012	Of which non-current portion	Of which current portion	Maturity date	Interest rate
Loan from a syndicate of commercial banks (EUR 50 million)	22,021	19,453	2,568	20 Dec 2016	3 month EURIBOR + 1.15%
Bonds issued to Nordic Investment Bank (EUR 40 million)	31,866	29,212	2,654	15 Dec 2024	6 month EURIBOR + 1.33%
Short-term working capital loan	5,000	0	5,000	12 Feb 2013	5 month EURIBOR + 0.9%
Total bank loans	**58,887**	**48,665**	**10,222**		
Total borrowings	**58,887**	**48,665**	**10,222**		

Loans and borrowings as at 31 December 2011
In thousands of euros

	Balance at 31 Dec 2011	Of which non-current portion	Of which current portion	Maturity date	Interest rate
Bank overdraft	347	0	347	2012	
Loan from the parent company	98,533	67,545	30,988	15/12/2024	Weighted average 3.01%
Total loans	**98,880**	**67,545**	**31,335**		
Total loans and borrowings	**98,880**	**67,545**	**31,335**		

Contractual maturities of loans and borrowings

In thousands of euros	< 1 year	1-5 years	Over 5 years	Total
As at 31 December 2012				
Bank loans	10,222	30,072	18,593	58,887
Total	**10,222**	**30,072**	**18,593**	**58,887**

In thousands of euros	< 1 year	1-5 year	Over 5 years	Total
As at 31 December 2011				
Loans	31,335	31,553	35,992	98,880
Total	**31,335**	**31,553**	**35,992**	**98,880**

Finance lease interest expensed in 2012 amounted to 216 thousand euros (2011: nil euros) and interest payments on loans and bonds totalled 1,061 thousand euros (2011: 1,346 thousand euros). Finance lease liabilities were acquired as a result of the division transaction and the leases were terminated early in June 2012. The loan received from the former parent was offset against the receivables acquired from the parent upon division.

At 31 December 2012, the unused portions of the Company's overdraft facility and other available credit lines totalled 8,917 thousand euros (2011: 13,835 thousand euros).

Loan liabilities were acquired on the division of the former parent company. The bonds will be redeemed in equal biannual instalments during the period 2013-2024.

The Company has not pledged any assets as loan collateral.

Note 11: Provisions

In thousands of euros	**Provision for benefits for incapacity for work**	**Provision for litigation**	**Other provisions**	**Total**
At 1 January 2011	**182**	**2,314**	**0**	**2,496**
Recognition	63	0	0	63
Use	-24	0	0	-24
Reversal	0	-2,314	0	-2,314
At 31 December 2011	**221**	**0**	**0**	**221**
Acquisition on division	35	0	0	35
At 1 January 2012	**256**	**0**	**0**	**256**
Recognition	-29	**0**	140	**111**
Use	-25	**0**	**0**	**-25**
At 31 December 2012				
Current provisions	25	0	0	**25**
Non-current provisions	177	0	140	**317**
Total provisions	**202**	**0**	**140**	**342**

The Company has made a provision for payment of benefits for incapacity for work. The benefits are designed for employees that have sustained injuries or other damage to health on fulfilling their work responsibilities. The provision was calculated based on the average payment period, which usually extends until the end of the employee's lifetime, and the size of the benefit. The payment period was determined by reference to the data published by Statistics Estonia in respect of the average expected remaining lifetime for the age. The provision is discounted at the rate of 5%, the figure consisting of a 10% discount rate and an estimated 5% inflation component.

By a ruling issued on 9 January 2012, Harju County Court decided not to satisfy the claim of the Republic of Estonia filed against the Company for repayment of Phare assistance of 2.3 million euros. The ruling took effect on 15 February 2012 without an appeal being lodged. Reversal of the litigation provision was recognised in the statement of comprehensive income for 2011 within Other expenses.

Other provisions comprise provisions for post-employment benefits.

Note 12: Trade and other payables

In thousands of euros	**31 December 2012**	**31 December 2011**
Trade payables	7,379	8,301
Deferred income	2,528	3,145
Total	**9,907**	**11,446**
Accrued expenses:		
-Payables to employees	1,431	931
-Social security tax payable	311	233
-Interest payable	51	0
-Other accrued expenses	2,211	8,101
Total	**4,004**	**9,265**
Total trade and other payables	**13,911**	**20,711**

Trade payables of 7,379 thousand euros (2011: 8,301 thousand euros) include amounts payable to suppliers of property, plant and equipment of 2,211 thousand euros (2011: 2,875 thousand euros). Other accrued expenses include accruals relating to property, plant and equipment of nil euros (2011: 6,828 thousand euros).

Note 13: Revenue and other income

Revenue by geographical area

In thousands of euros	2012	2011
Total sales to the EU countries	**65,919**	**60,241**
Estonia	65,902	60,206
Other EU countries	17	35
Total sales to countries outside the EU	**0**	**5**
Switzerland	0	5
Total revenue	**65,919**	**60,246**

Geographical area refers to the customer’s location.

Revenue by activity

In thousands of euros	2012	2011
Infrastructure services	57,478	55,127
Lease and rental services	1,285	332
Purchased and resold energy	1,728	1,612
Telecommunications services	379	406
Real estate services, rental of buildings and premises	616	421
Sale of inventory	3,958	1,939
Other	475	409
Total revenue	**65,919**	**60,246**

Other income

In thousands of euros

	2012	2011
Gain on sale of property, plant and equipment	12,058	32
Fines, penalties and compensation	938	6,581
Other	78	31
Total other income	**13,074**	**6,644**

Gain on sale of property, plant and equipment of 12,035 thousand euros arose on sale of assets to a state-owned company.

The figure of Fines, penalties and compensation for 2011 includes interest on arrears of 6,223 thousand euros payable by a counterparty based on a ruling of the court of law.

Note 14: Expenses

In thousands of euros	**2012**	**2011**
Raw materials and consumables	2,891	2,932
Goods purchased for sale	368	12
Services purchased for sale	1,678	1,585
Energy	2,148	1,863
Railway repair and maintenance	3,356	3,353
Real estate maintenance	503	960
Repair and maintenance of means of transport	801	823
Maintenance of telecommunications, electricity and safety systems	546	701
Other rail transport related services	4,236	4,863
Other	327	32
Total goods, materials and services used	**16,854**	**17,124**

In thousands of euros	**2012**	**2011**
Lease and rental charges	1,918	1,261
Energy	703	563
Miscellaneous office expenses	960	765
Business travel expenses	223	80
Training expenses	167	24
State and local taxes	702	644
Insurance services	180	181
Spare parts and maintenance of cars	241	272
Consulting fees	67	2,146
Information services	392	388
Other employee-related expenses	240	172
Other	790	-2,766
Total other operating expenses	**6,583**	**3,730**

In thousands of euros	**2012**	**2011**
Loss on sale of property, plant and equipment	3,928	74
Fines, penalties and compensation	9	-2,308
Membership fees	353	0
Other	11	0
Total other expenses	**4,301**	**-2,234**

The Company decided to terminate the finance leases early, which gave rise to a loss of 3,923 thousand euros, which was recognised in the reporting period.

Note 15: Finance income and costs

In thousands of euros	**2012**	**2011**
Interest income	9	136
Total interest expense	-1,278	-2,538
Interest expense on loans	-1,061	-2,538
Interest expense on finance leases	-216	0
Other interest expense	-1	0
Foreign currency translation differences	-20	-27
Total other finance income and costs	-580	0
Change in fair value of interest rate swaps	-307	0
Other finance income and costs	-273	0
Total finance income and costs	**-1,869**	**-2,429**

Note 16: Income tax

Under the effective Estonian Income Tax Act, companies registered in Estonia do not pay income tax on their earnings. Instead, income tax is levied on profit distributions. In line with section 50 of the act, dividends distributed by a company are subject to income tax irrespective of the recipient. Since 1 January 2009, the amount of tax payable has been calculated as 21/79 of the net distribution.

The contingent income tax liability representing the amount of tax that would have to be paid if all of the Company's retained earnings were distributed as dividends is not recognised in the balance sheet. The income tax payable on the distribution of dividends is recognised as an expense in the period in which the dividend is declared.

At 31 December 2012, the Company's undistributed profits (prior period retained earnings and profit for the year) totalled 89,907 thousand euros (2011: 37,200 thousand euros). The maximum income tax liability that would arise if all of the undistributed profits were distributed as dividends in 2013 amounts to 18,880 thousand euros (2011: 7,812 thousand euros).

According to the profit allocation proposal made by the management board, in 2013 the Company will distribute a dividend of 4,305 thousand euros, which will give rise to an income tax liability of 1,144 thousand euros.

Note 17: Contractual commitments

Investments in property, plant and equipment

At 31 December 2012, the Company had signed contracts on investments of 18.3 million euros (2011: 24.4 million euros) to be made in property, plant and equipment during the period 2013-2014.

Operating leases – the Company as a lessee

In 2012, the Company used vehicles (cars), buildings and land subject to the right of superficies under operating leases. Operating lease payments made in 2012 totalled 2,923 thousand euros (2011: 3,916 thousand euros).

Operating lease payments to be made in subsequent periods under non-cancellable leases break down as follows:

In thousands of euros	**31 December 2012**	**31 December 2011**
Not later than 1 year	1,316	1,056
2-5 years	4,050	3,207
Over 5 years	8,982	9,478
Total	**14,348**	**13,741**

Operating leases – the Company as a lessor

In 2012, the Company's income on assets leased out under operating leases (rolling stock, premises, storage areas, the right of superficies) amounted to 797 thousand euros (2011: 740 thousand euros).

In thousands of euros	**31 December 2012**	**31 December 2011**
Assets leased out		
Cost	4,962	4,072
Accumulated depreciation	-1,137	-717
Carrying amount	**3,825**	**3,355**

In 2012, depreciation expense on assets leased out under operating leases amounted to 69 thousand euros (2011: 50 thousand euros).

Operating lease income receivable under non-cancellable leases in subsequent periods:

In thousands of euros	**31 December 2012**	**31 December 2011**
Not later than 1 year	413	759
2 - 5 years	233	449
Over 5 years	288	0
Total	**934**	**1,208**

The Company has numerous operating lease contracts that are renewed annually. Therefore, contractual liabilities do not exceed one year.

Note 18: Related party disclosures

The Company's related party transactions comprise transactions with the shareholder, the members of its supervisory and management boards and persons connected with them as well as companies under the control or significant influence of the above persons.

The owner of AS Eesti Raudtee is the Republic of Estonia.

Balances and transactions with related parties

In thousands of euros	31 December 2012		31 December 2011	
	Receivables	Payables	Receivables	Payables
Parent company	0	0	405	98,879
Other group companies	0	0	2,342	1,715
Companies connected with members of the management and supervisory boards	0	1	0	12
Government related entities	6,410	2,683	213	7,121

In thousands of euros	2012		2011	
	Sales	Purchases	Sales	Purchases
Parent company	0	0	47	3,459
Other group companies	0	0	26,896	3,938
Companies connected with members of the management and supervisory boards	0	1,110	1	1,632
Government related entities	51,069	13,323	2,507	43,616

Remuneration and other significant benefits provided to the management and supervisory boards

In thousands of euros	2012	2011
Remuneration	330	147
Total	**330**	**147**

If the employer terminates the contract of a member of the management board early without cause, the member of the management board will be entitled to termination benefits equal to his or her three months' remuneration. The Company has made a provision of 140 thousand euros for post-employment benefits.

Note 19: Government grants

In thousands of euros	2012	
	Received	**Used**
Government grants for acquisition of non-current assets		
Reconstruction of railway infrastructure on the Rail Baltica route (European Cohesion Fund)	2,672	2,264
Adjustment of platforms to the EU height requirements (European Cohesion Fund)	5,556	4,980
Ensuring passenger safety (European Regional Development Fund)	2,109	1,433
Reconstruction of the electric traction network (European Cohesion Fund)	6,565	4,093
Major overhaul of the Keila-Riisipere railway line (European Cohesion Fund)	3,238	5,142
Total government grants for acquisition of non-current assets	**20,140**	**17,912**

In thousands of euros	31 December 2012			
	Received	**Used**	**Liability**	**Receivable**
Government grants for acquisition of non-current assets				
Major overhaul of the Tartu-Valga railway line (Trans-European Transport Network Fund)	9,556	9,616	0	60
Reconstruction of railway infrastructure on the Rail Baltica route (European Cohesion Fund)	35,674	34,931	782	39
Adjustment of platforms to the EU height requirements (European Cohesion Fund)	10,140	9,988	152	0
Ensuring passenger safety (European Regional Development Fund)	5,424	5,490	138	204
Reconstruction of the electric traction network (European Cohesion Fund)	7,482	4,093	4,823	1,434
Major overhaul of the Keila-Riisipere railway line (European Cohesion Fund)	3,238	5,142	1,489	3,393
Total government grants for acquisition of non-current assets	**71,514**	**69,260**	**7,384**	**5,130**

In thousands of euros	31 December 2011			
	Received	**Used**	**Liability**	**Receivable**
Government grants for acquisition of non-current assets				
Major overhaul of the Tartu-Valga railway line (Trans-European Transport Network Fund)	9,556	9,616	0	60
Reconstruction of railway infrastructure on the Rail Baltica route (European Cohesion Fund)	33,002	32,667	2,759	2,424
Adjustment of platforms to the EU height requirements (European Cohesion Fund)	4,584	5,008	719	1,142
Ensuring passenger safety (European Regional Development Fund)	3,315	4,057	291	1,033
Reconstruction of the electric traction network (European Cohesion Fund)	917	0	917	0
Major overhaul of the Keila-Riisipere railway line (European Cohesion Fund)	0	0	2,345	2,345
Total government grants for acquisition of non-current assets	**51,374**	**51,348**	**7,031**	**7,005**

In 2012, the Ministry of Economic Affairs and Communications transferred to the Company the cost of the works performed by Riigi Kinnisvara AS at the Koidula border station of 2,933 thousand euros that had been paid for from the state budget. The amount is recognised within Property, plant and equipment and Deferred government grants.

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

Note 20: Division transaction

On 3 September 2012, an entry was made in the Estonian Commercial Register based on the agreement on the division of AS Eesti Raudtee group signed on 11 June 2012, by which AS Eesti Raudtee group was divided as from 1 January 2012. As part of the transaction, the former parent transferred to the Company assets and liabilities.

The following table provides an overview of the effect of the division on the Company's assets and liabilities:

In thousands of euros	**1 January 2012**	**31 December 2011**
ASSETS		
Non-current assets		
Property, plant and equipment	237,052	210,604
Investment property	245	0
Long-term receivables	22	22
Total non-current assets	**237,319**	**210,626**
Current assets		
Non-current assets held for sale	201	0
Inventories	12,207	12,149
Trade receivables	3,218	2,526
Other receivables	9,664	9,023
Cash and cash equivalents	2,656	1,154
Total current assets	**27,946**	**24,852**
TOTAL ASSETS	**265,265**	**235,478**
EQUITY AND LIABILITIES		
Equity		
Share capital	70,303	70,303
Statutory capital reserve	939	939
Revaluation reserve	323	0
Retained earnings of prior periods	77,805	18,393
Profit for the year	0	18,807
Total equity	**149,370**	**108,442**
Non-current liabilities		
Loans and borrowings	73,158	67,545
Derivatives	1,723	0
Provisions	230	199
Total non-current liabilities	**75,111**	**67,744**
Current liabilities		
Trade and other payables	23,007	20,711
Tax liabilities	658	540
Loans and borrowings	10,062	30,988
Provisions	26	22
Deferred government grants	7,031	7,031
Total current liabilities	**40,784**	**59,292**
Total liabilities	**115,895**	**127,036**
TOTAL EQUITY AND LIABILITIES	**265,265**	**235,478**

Note 21: Transition to IFRS

Balance sheet

In thousands of euros	Estonian GAAP 31 Dec 2011	Effect of transition to IFRS	IFRS 31 Dec 2011	Estonian GAAP 1 Jan 2011	Effect of transition to IFRS	IFRS 1 Jan 2011
ASSETS						
Non-current assets						
Property, plant and equipment	210,604	0	210,604	168,023	**0**	168,023
Receivables and prepayments	22	-22	0	23	-23	0
Long-term receivables	0	22	22	0	23	23
Total non-current assets	**210,626**	**0**	**210,626**	**168,046**	**0**	**168,046**
Current assets						
Inventories	12,149	0	12,149	11,400	0	11,400
Receivables and prepayments	11,549	-11,549	0	18,225	-18,225	0
Trade receivables		3,679	3,679	0	8,804	8,804
Other receivables	0	7,870	7,870	0	9,421	9,421
Cash and cash equivalents	1,501	0	1,501	6,058	0	6,058
Total current assets	**25,199**	**0**	**25,199**	**35,683**	**0**	**35,683**
TOTAL ASSETS	**235,825**	**0**	**235,825**	**203,729**	**0**	**203,729**
EQUITY AND LIABILITIES						
Equity						
Share capital	70,303	0	70,303	70,303	0	70,303
Statutory capital reserve	939	0	939	265	0	265
Retained earnings of prior periods	37,200	0	37,200	21,560	0	21,560
Total equity	**108,442**	**0**	**108,442**	**92,128**	**0**	**92,128**
Non-current liabilities						
Loans and borrowings	67,545	0	67,545	75,433	0	75,433
Provisions	199	0	199	164	0	164
Total non-current liabilities	**67,744**	**0**	**67,744**	**75,597**	**0**	**75,597**
Current liabilities						
Trade and other payables	20,322	389	20,711	13,586	423	14,009
Tax liabilities	929	-389	540	905	-423	482
Loans and borrowings	31,335	0	31,335	12,464	0	12,464
Provisions	22	0	22	2,332	0	2,332
Deferred government grants	7,031	0	7,031	6,717	0	6,717
Total current liabilities	**59,639**	**0**	**59,639**	**36,004**	**0**	**36,004**
Total liabilities	**127,383**	**0**	**127,383**	**111,601**	**0**	**111,601**
TOTAL EQUITY AND LIABILITIES	**235,825**	**0**	**235,825**	**203,729**	**0**	**203,729**

In connection with transition to IFRS EU, the Company changed the classification of receivables and payables.

KPMG Baltics OÜ
Narva mnt 5
Tallinn 10117
Estonia

Telephone +372 6 268 700
Fax +372 6 268 777
Internet www.kpmg.ee

Independent Auditors' Report

(Translation from the Estonian original)

To the shareholder of AS Eesti Raudtee

We have audited the accompanying financial statements of Eesti Raudtee AS ("the Company"), which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 50.

Management's Responsibility 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of the Company as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 19 March 2013

/signature/

Andres Root
Authorized Public Accountant, Licence No 9

/signature/

Kristina Velička
Authorized Public Accountant, Licence No 512

/signature/

Andris Jegers
Authorized Public Accountant, Licence No 171

KPMG Baltics OÜ
Licence No 17
Narva mnt. 5
Tallinn 10117

Profit allocation proposal

The management board of AS Eesti Raudtee proposes that the annual general meeting allocate the company's net profit for 2012 of 16,186 thousand euros as follows:

Dividend distribution	4,305 thousand euros
Transfer to statutory capital reserve	809 thousand euros
Transfer to retained earnings	11,072 thousand euros
Retained earnings after allocations	85,290 thousand euros

Signatures of the management board

The annual report of AS Eesti Raudtee for the year ended 31 December 2012 consists of the review of operations, the annual financial statements, the auditor's report and the profit allocation proposal.

The company's management board has prepared the review of operations, the annual financial statements and the profit allocation proposal.

Ahti Asmann Chairman	Toomas Virro	Arvo Smiltinś

Sergei Fedorenko

19 March 2013

List of business activities

List of business activities	**EMTAK code**	**2012**	**2011**	**2010**
Infrastructure services	52219	57,478	55,127	57,688
Lease and rental services	77391	1,285	332	226
Purchased and resold energy	35141	1,728	1,612	1,786
Telecommunications services	61901	379	406	497
Real estate services, rental of buildings and premises	68201	616	421	465
Wholesale and retail trade	45311	3,958	1,939	1,682
Total		**64,449**	**59,837**	**62,344**

Activities planned for the period 1 January to 31 December 2013

Infrastructure services	(52219)
Lease and rental services	(77391)
Purchased and resold energy	(35141)
Telecommunications services	(61901)
Real estate services	(68201)
Wholesale and retail trade	(45311)