

Annual Report  
2019



**EESTI RAUDTEE**

AS Eesti Raudtee 2019. annual report consists of sustainability, corporate social responsibility, good corporate governance (CGC), accounting and management reports. We want to be open with stakeholders on various aspects of our activities.

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

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## GENERAL INFORMATION

Company name: AS Eesti Raudtee

Commercial register number: 11575838

Beginning of financial year: 1 January 2019

End of financial year: 31 December 2019

Legal address: Telliskivi 60/2, 15073 Tallinn, Eesti Vabariik

Telephone: (+372) 615 8610

E-mail: [raudtee@evr.ee](mailto:raudtee@evr.ee)

Corporate website: [www.evr.ee](http://www.evr.ee)

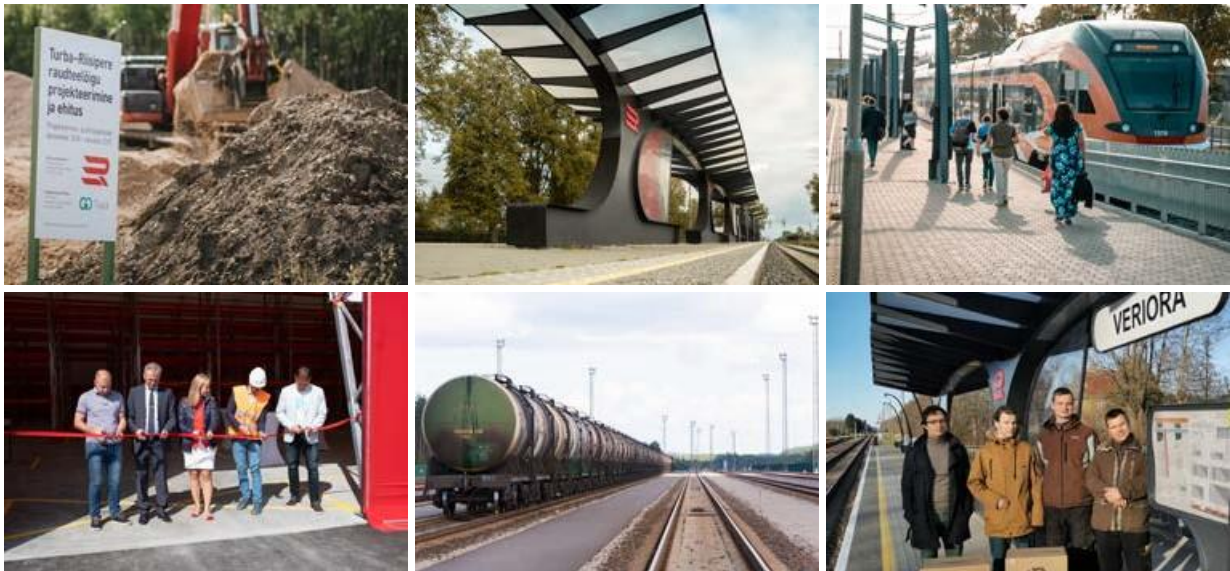
Main activities: Management of the railway infrastructure

Management: Erik Laidvee, Andrus Kimber

Council: Priit Rohumaa, Siiri Lahe, Ain Tatter, Raigo Uukkivi, Enn Veskimägi

Auditor: AS PricewaterhouseCoopers





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# ESTONIAN RAILWAYS IN BRIEF

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

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

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

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

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

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

We operate as a region's railway competence centre.



**1,214 km  
of railways**

(incl. 225 km of electrified track)



**61 railway  
stations**



**129 passenger  
platforms**

**150 years  
of history**

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

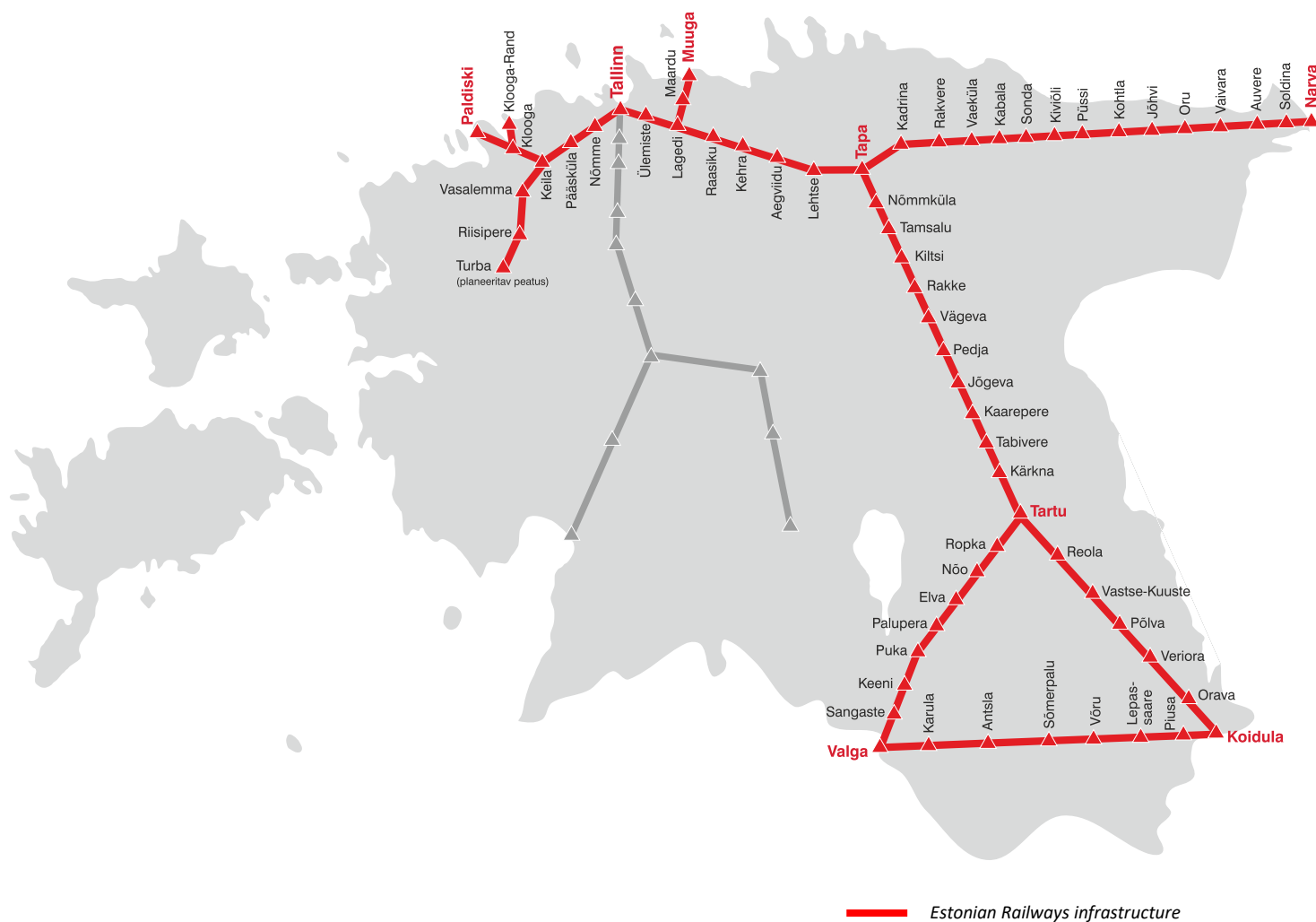


**698 employees**  
across Estonia



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





We are members of several organisations that promote responsible governance:



In addition, we participate in many other railway networks (for full list please see page 33).













*Erik Laidvee  
CEO and Chairman of the  
Management Board*

## STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

For Estonian Railways, the year 2019 ushered in our 150th anniversary and laid a foundation for the next decade. The year as a whole can be considered a success for significant measures taken for securing important investments, ensuring the sustainability of the infrastructure and meeting the Company's staffing needs. 2019 was also a good year for our core business and internal processes.

Of the projects that gained momentum in 2019, one should highlight the EUR 11 million investment in increasing the safety of our railway infrastructure crossings. At the end of 2019, EUR 2 million was allocated in the state budget for 2020 for the design of the railway between Turba and Rohuküla. One of the biggest challenges for the next decade in the field of transport will be the reduction of greenhouse gas emissions, for which the Government of the Republic decided to electrify the Estonian railway network by 2028.

The biggest success in 2019 was definitely the launch of Estonia's fastest railway between Riisipere and Turba at the beginning of December. The railway, which the locals had been eagerly awaiting, was opened by the representatives of the government, the Prime Minister Jüri Ratas and the Minister of Economic Affairs and Infrastructure Taavi Aas, taking part in the historic first railway journey.

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**The biggest achievement was  
the opening of Estonia's fastest  
railway section between  
Riisipere and Turba**

## Focus on responsible action

In internal processes, a key achievement was the opening of a new central warehouse, which will help us to manage assets more efficiently than before. One must also mention the Gold Level of the Responsible Business Forum, awarded to us in the first half of 2019 for our commitment to the development of responsibility field.

The new head office of the Company located in the Telliskivi Creative City was awarded the European Green Office certificate. In 2019, we defined more clearly our role and impact in the society as a promotor of economic relations, a connector of regions, an enhancer of mobility and a developer of sustainable transport. We will continue this work in the coming years through implementation of the Responsible Business Action Plan approved in 2019.

In railway operations, mention should also be made of safety that remains one of the key tasks of our responsible activities. In the field of safety, 2019 was a special year for us as in September the Company held the largest railway emergency exercise of the last eight years that involved the Rescue Board, Police and Border Guard Board, Tallinn Ambulance, Tallinn City Government, Operail, Eesti Liinirongid, Emergency Response Center, Consumer Protection and Technical Regulatory Authority, USS Security, Environmental Board and Environmental Inspectorate.

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We defined our role and impact in the society as a promotor of economic relations, a connector of regions, an enhancer of mobility and a developer of sustainable transport

The aim of the exercise was to practice preparedness for a major rail accident involving dozens of injured people, while rescue work is further complicated by chemical spills and risk of explosion. In total, more than 200 operations staff members took part in large-scale exercises held on the territory of Kopli station.

## Business results in freight and passenger transport

In terms of freight volumes, the overall performance was similar to the results of 2018. Freight volumes were primarily affected by a 37% decrease in domestic transport of oil shale, which was partially offset by the growth in transit freight. The total freight volume was 13.2 million tonnes, which is 2.4% less than in 2018. In 2020, we must therefore make a special effort with rail freight companies, freight forwarders and ports to ensure a steady increase in the flow of transit freight in the years to come.

On a positive side, the number of rail passengers increased both for domestic and international rail service. This proves that there is a growing demand for sustainable and high-quality transport provided by rail infrastructure.

In the new decade, the Company has been entrusted with large-scale investments and projects that bring us closer to the realisation of our vision of becoming the most modern railway infrastructure company in the region. Also future staffing needs and raising public awareness of the railway sector are becoming increasingly important. We are working to make the Company sustainable and successful for decades to come, and we welcome the forthcoming 150th year of rail operations.

Erik Laidvee

CEO and Chairman of the Management Board





# KEY FINANCIAL INDICATORS IN 2019



**Sales revenue**  
**EUR 39.5**  
**million**  
(2018: 41.5)



**EBITDA**  
**EUR 29.7**  
**million**  
(2018: 29.3)



**Net profit**  
**EUR 8.9**  
**million**  
(2018: 8.6)



**Equity**  
**EUR 159.0**  
**million**  
(2018: 150.1)



**Investments**  
**EUR 31.5**  
**million**  
(2018: 26.4)



**Total assets**  
**EUR 342.6**  
**million**  
(2018: 334.1)



**Domestic freight volume**  
**2.1**  
**million tonnes**  
(2018: 2.8)



**International freight volume**  
**11.1**  
**million tonnes**  
(2018: 10.7)



**Number of railway accidents/casualties/fatalities 9/2/6**  
(2018: 23/15/9)



**Number of local passengers**  
**7.0**  
**million**  
(2018: 6.4)



**Number of international passengers**  
**111 thousand**  
(2018: 107 thousand)



**Number of accidents at work/fatalities 1/0**  
(2018: 3/0)

# KEY EVENTS IN 2019



## January

Armoured train Wabadus, built for the occasion of the 100th anniversary of the War of Independence, started its year-long journey from Kehra railway station.

The Director General of the Consumer Protection and Technical Regulatory Authority extended the Company's safety permit for the management of public railways for the next 5 years. The permit is a prerequisite for operating as a railway company.

The Company switched to new, technologically more advanced and versatile business software Microsoft Dynamics 365.



## February

The Company's new head office started work in a new office building in the Telliskivi Creative City.

The government approved an action plan for the development of public railway infrastructure for the years 2019–2024.

## March

The Company sold the property at Suurtüki 12.



## April

The Company joined the declaration of responsible entrepreneurship of the Ministry of Economic Affairs and Communications.

## May

The Company was awarded the Gold Level of Responsible Business Index for the promotion of responsible entrepreneurship.

## June

The government decided to electrify the railways by 2028 to reduce greenhouse gas emissions. The designing of the first sections of the electrified railway will start in 2020.



## July

The Company opened its new central warehouse in Rae municipality aimed at managing inventories more efficiently.



## August

The Company participated in the 11th International Handcar Rally from Pärnu to Lelle and back.



## September

Kopli raud, the largest railway emergency exercise held in the last eight years, focused on activities in the event of a major train accident. More than 200 people took part in the exercise.

CEO Erik Laidvee was elected vice-president of the Association of European Railway and Infrastructure Companies (CER).



## October

Together with the Police and Border Guard Board, the Company inspected level and pedestrian crossings in the administrative areas of the North, South and East Prefectures in order to remind road users of safety rules when crossing the railway.

At October 22-25, the Company hosted representatives of 14 member states of the CIS Railway Transport Council at the XXVIII Tariff Conference in Tallinn.



## November

The Company signed an EUR 11 million contract for the modernization of level and pedestrian crossings and improvement of safety. In the next 4 years, automation solutions will be delivered and installed on the Company's infrastructure on 103 level and 9 pedestrian crossings.



## December

On December 8th, the fastest railway section in Estonia was opened between Riisipere and Turba, with a maximum permitted speed of 140 km/h. On a brand new railway section that is longer than six kilometres, the train runs 11 times a day.

The Company's head office located in Telliskivi Creative City was awarded the green office certificate.

*The opening of the fastest railway section in Estonia between Riisipere and Turba*





# AWARDS AND RECOGNITION IN 2019

■ In 2019, the Company was awarded the **Gold Level of Responsible Business Index**, the highest such recognition in Estonia issued by the Responsible Business Forum for companies that care about their surroundings and wish to contribute more to the society than required by law or regulations.



■ The restored Narva railway station building was recognised by the **National Heritage Board**. Negotiations for the restoration of the station building were launched with the local government in 2014. Construction work began in 2018 and upon its completion the station building became a national cultural monument. The impressive station building, worthy of a border town, is a success story worth highlighting where the co-operation of the building's owner, Estonian Railways and Narva City Government played an important role. The passenger terminal of Narva Bus and Train Station, another joint project, will be opened in 2020.

■ The Company's new head office located at Telliskivi 60/2 was awarded the **European Green Office Certificate**. The aim of the action plan of the Green Office is to continuously monitor and reduce the environmental impact, and we have implemented many measures to this end. For example, we no longer use plastic water bottles and individual trash bins in each office. We sort waste, prefer the use of recyclable materials, use various energy conservation possibilities in the office, support sustainable movement and prefer environmentally-friendly choices in our procurements.

■ The **Emergency Response Center** recognised the Company for **good co-operation**. The trainings courses that we organised were highly valued, leading to significantly clearer exchange of information between the parties. We have also harmonised the meanings of the terms and the location identification methods on the railway infrastructure.

■ The organizers of the **Tallinn Marathon** thanked the Company for its contribution to the planning of the route for the Tallinn Marathon and Autumn Run, dedicated to the 100th anniversary of the Republic of Estonia, through the level crossings of Kopli and Tööstuse Streets. More than 22,000 people from more than 60 countries took part in record-setting races.

■ According to the **CV-Online survey of attractive employers**, Estonian Railways as the only rail sector's Company ranked 10th among the companies in the transport and logistics sector.



# 150

## Celebrating the 150<sup>th</sup> anniversary of rail traffic in Estonia

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

We are also preparing to ensure that this important historical date is celebrated with dignity.

- To commemorate the jubilee, we looked into the past and re-enacted a photo of the first train ride from the Paldiski station in 1870.
- In addition, Eesti Post has agreed to issue in the autumn a postage stamp dedicated to the opening of railway traffic in Estonia. It is something that all stamp collectors and train enthusiasts can look forward to.
- During the anniversary week, the Company plans to involve passengers in the celebrations through various activities in trains and stations, associated with our history and the future.



In this way, 2020 will be a very special year for all railway professionals and enthusiasts in Estonia. Congratulations to all!

# BUSINESS PHILOSOPHY

## Owner's expectations

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

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

In achieving the objectives of public interest, Ltd Estonian Railways primarily follows the action plan directing the development of public railway infrastructure for years 2019–2024. The main investments are therefore related to the modernization of safety systems, increasing the safety of railway crossings and increasing speeds on the infrastructure of Estonian Railway.

## Vision, mission, values

Ltd Estonian Railways is a company with a 150-year history. It makes us think long ahead in advance. The daily activities of Estonian Railway are to ensure safe and efficient transportation of goods and people on Estonian railways. We ensure a smooth railway infrastructure management and efficient operation.



### VISION

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



### MISSION

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



### VALUES

cooperation, honesty, innovation and professionalism.

### Vision

The vision of Estonian Railway is to become the most modern railway infrastructure company in the region. To achieve this, continuous development of the railway sector is necessary. Many companies, educational institutions and research centers are cooperating to develop innovative solutions. The company is becoming more and more modern in integrating IT services, and software capabilities are increasingly being used in both core and support processes.





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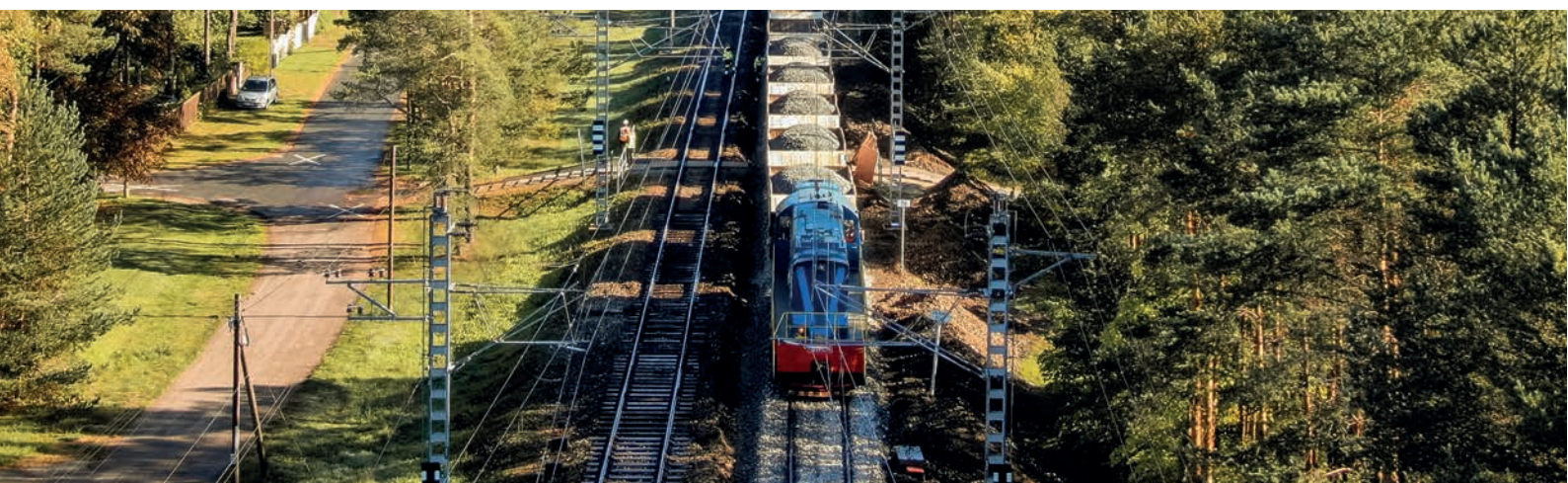
## Mission

Estonian Railway performs both economic and social tasks. An example of a social role is to ensure the usability of infrastructure for passenger transport, which, directly affecting Estonia's regional development, is also one of the national priorities. On the other hand, heavy passenger train traffic reduces railway capacity, thereby slowing down the movement of freight trains and significantly reducing the competitiveness of freight transport as the main source of revenue for Estonian Railway. The company's task is therefore to strike a balance between different interests, based on both the public interest and sustainability. Finding such a balance presupposes the competence of Estonian Railway employees in very different fields.

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## Values

- **Cooperation** is one of the most important values of the company. We consider it important to have open communication between employees, to be considered by colleagues, and to perform work tasks correctly and to solve problems together. We also consider external cooperation important: Estonian Railway's willingness to cooperate must be reflected in the company's existing and potential customers and partners, as well as the public.
- **Honesty** is a very important value in the field of Estonian Railways' activities. In the case of Estonian Railway, it is a state-owned company, and the employees must be more exemplary and honest in their decisions and actions. Honest attitude is also expected from our customers and partners.
- **Innovation** is a value that is considered important in Estonian Railways. Estonian railways have a history of 150 years, but in order to remain competitive in today's world, we must keep up with the times and renew our processes. It is certainly possible to be more innovative than before and to take the company forward with innovative decisions.
- **Professionalism** is a pillar of Estonian Railways. This value is used in the training of employees - by increasing their professionalism, employees can develop themselves in the company and thereby also influence the company's financial results. The employees carry the so-called railway wisdom and are top specialists in their field.



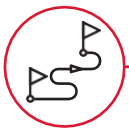
# SOCIAL IMPACT OF OUR ACTIVITIES

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



## **Our role in stimulating economic growth:**

good transport connections and services contribute to economic growth and business development. Rail connections also help boost tourism.



## **Our role in people's mobility:**

the railway offers a wider range of opportunities for people's daily movements and travel. Well-organised rail transport is convenient, fast and safe. Railways are an important link in the integration of different modes of transport (intra-urban public transport, sharing platforms, road transport and car parks, shipping and air traffic).



## **Our role in promoting employment:**

As a link between the regions, the railways help to cover long distances faster and provide better opportunities for people living away from the centres to go to work. In this way, we help to preserve life away from big cities.



## **Our role in preserving the natural environment:**

rail transport is an environmentally-friendly alternative to road transport. The electrification of the Estonian railway infrastructure plays a role in this.



## **Our direct contribution to employment:**

With almost 700 employees, we are one of the fifty largest employers in Estonia, and half of our jobs are located outside Tallinn. As suppliers and subcontractors, many Estonian companies benefit from our large-scale investments.

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







In recent years, the Estonian state-owned railway logistics company AS Operail has increased the capacity of container trains in Estonia, introduced new routes and today transports container trains weighing more than 1,000 tonnes from Tartu to the ports of Muuga and Sillamäe. One commercial trailer truck carries only 27 tonnes of goods at a time. In this way one freight train replaces more than 30 commercial vehicles. Over the past year, Operail has replaced 9,000 commercial vehicle trips with rail. Freight transport by rail is 28 times safer than by road.

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

Source: [www.operail.com](http://www.operail.com)

Solutions for efficient yet sustainable and environmentally-friendly transport are being sought around the world. Compared to rail, road and air transport have developed faster. At the same time, in the future, rail transport is seen as having a greater potential for offering more optimal and cost-effective solutions.

In October 2019, the Government of the Republic approved Estonia's positions on the strategy developed by the European Commission to achieve climate neutrality by 2050. Full electrification of railways would lead to an average reduction of around 90,000 tonnes of CO<sub>2</sub> per year by 2050, and rerouting freight transport to rail would lead to an average reduction of 55,000 tonnes of CO<sub>2</sub> per year.<sup>1</sup>

Russian tourists visiting Estonia by the Tallinn-Moscow train contribute about EUR 15 million per year to the Estonian economy.<sup>2</sup>

<sup>1</sup> Analysis of the possibilities to raise Estonia's climate ambition. SEI Tallinn, 2019.

<sup>2</sup> Statistics based on surveys from 2016-2017 commissioned by Enterprise Estonia and on information regarding ticket prices on the Moscow-Tallinn route.

## Focus topics of responsible action

The strategic goals of Estonian Railways for 2019–2024 also concern aspects related to corporate responsibility. We believe that in the long run, the responsible approach supports the growth of profitability through the Company's positive image, high ethical standards and a lower level of risk.

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

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### We developed the Responsible Business Action Plan 2019-2021

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

The matrix below summarises the importance of different topics and expectations based on the stakeholder survey.

Based on the input, we together with the management formulated the priority topics of corporate responsibility:

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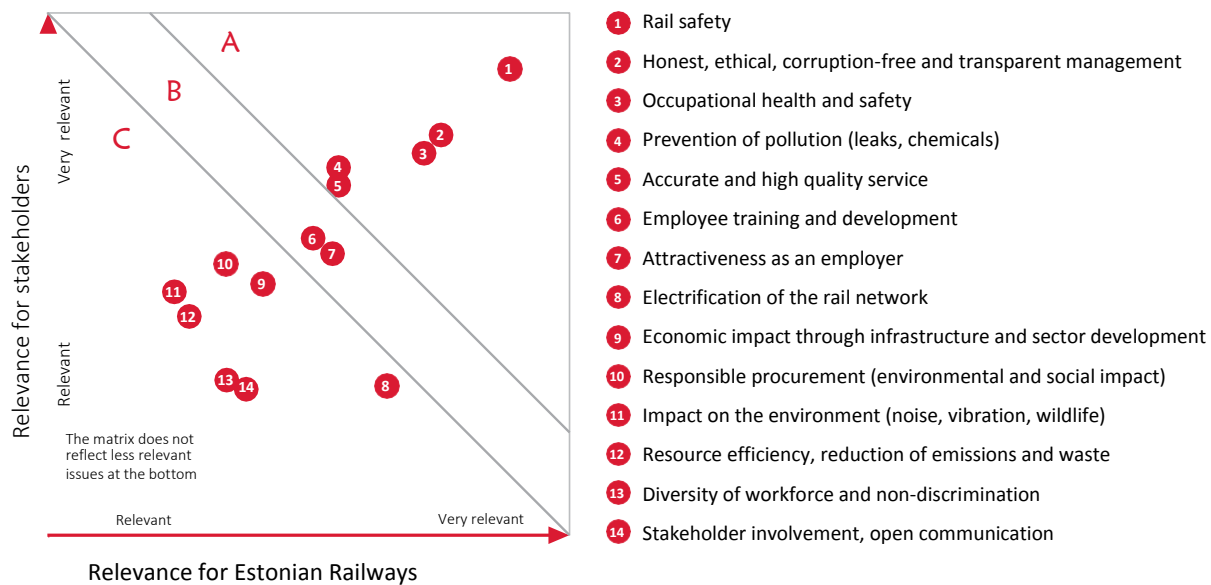
- |   |  |  |
|---|--|--|
| <ul style="list-style-type: none"><li>■ ensuring railway safety and raising public awareness;</li><li>■ thorough implementation of environmental protection principles in the Company's operations;</li><li>■ fair recruitment, development, motivation and treatment of employees;</li></ul> | <ul style="list-style-type: none"><li>■ creating a safe working environment and promoting a positive safety culture in the Company and on the railway infrastructure;</li><li>■ continuous development of the principles of corporate responsibility in the Company;</li></ul> | <ul style="list-style-type: none"><li>■ creating a value-based organisational culture and fight against corruption;</li><li>■ open communication in order to maintain the role of a reliable partner among all stakeholders.</li></ul> |
|---|--|--|

Our Responsible Business Action Plan covers all of these topics, as well as activities to promote energy-related issues, development of responsible service, supplier and employee involvement, voluntary community contribution as well as management of risk, quality and innovation.

We want to be more open when communicating and reporting on our activities as more in-depth disclosure of information helps to make the Company's operations more transparent, increases trust and helps to monitor the Company's activities and social impact. This annual report reflects our activities and results in the most important aspects of corporate social responsibility.



## Matrix of key focus topics of social responsibility in Estonian Railways



**A**

issues in which we must always ensure impeccable and faultless condition

**B**

issues which determine our internal development potential (incl. no. 13)

**C**

issues with which we expand our social impact



## Role in achieving UN Sustainable Development Goals

The role and impact of our core business in society and the implementation of key points and activities in responsible management address broader societal challenges. In 2019, we conducted an initial assessment of how and to which UN sustainable development goals our activities can contribute. We understand that, globally, we have a small role to play in achieving these aspirations, but in any case we consider it important to review our activities through this prism to find ways to maximise our positive impact.

In September 2015, UN member states agreed on global Sustainable Development Goals for the next 15 years to eradicate poverty, reduce inequalities and tackle environmental problems. Member states are expected to base their policies on these goals in order to build a sustainable and fair future - Agenda 2030. In addition to countries, the business sector around the world is shaping its operations in line with these goals. As a state-owned company and a provider of important infrastructure, we see the need and opportunity for Estonian Railways to support Estonia's contribution.



We have a direct and significant impact on goals 3, 7, 8, 9, 11 and 13.

We influence goals 4, 12, 15, 16 and 17 indirectly or moderately in our activities. Our impact on the remaining goals is smaller.



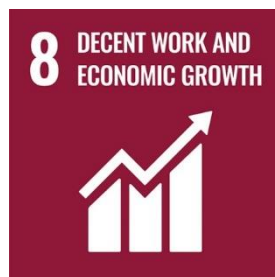
**Keywords relevant to us:**

- Safe movement for the living environment and health;
- Occupational safety and health



**Keywords relevant to us:**

- Energy efficiency;
- Electrification, introduction of renewable energy;
- Reducing greenhouse gas emissions from transport;
- Weatherproof infrastructure



**Keywords relevant to us:**

- Labour mobility;
- Employment in regions;
- Foreign trade facilitator (export and import of goods, sustainable tourism);
- Being a major and regional employer, diverse workforce;
- Safe, secure and fair working conditions



**Keywords relevant to us:**

- Technological innovation and environmental protection in infrastructure renewal, including electrification;
- High-quality, reliable, accessible, sustainable, resilient and secure infrastructure to support the economy and human well-being



**Keywords relevant to us:**

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

# STRATEGY AND OBJECTIVES

## Link with national strategies

As a state-owned company, our activities are guided by the Railway Act of the Republic of Estonia and many national strategies and action plans that affect us or are related to the development of railway infrastructure.

### Important documents:

- **Roadmap to a Single European Transport Area - Towards a competitive and resource efficient transport system** is the basis for both European Union and Estonian legislation in the field of transport, including rail transport. The principal motive - shifting freight transport from road to other modes of transport that have a lower environmental impact and are more cost-effective.
- **National Strategy *Sustainable Estonia 21* and Sustainable Development Action Plan for 2030.** Desirable situation in 2030: there have been significant shifts in the transport structure and the share of more environmentally-friendly modes of transport (e.g. rail) has increased.
- **Fundamentals of climate policy until 2050, development plan for adaptation to climate change until 2030 and Estonian environmental strategy until 2030.** Key words: prioritizing the development of low-greenhouse gas transport and transport modes and energy-efficient freight transport; reduction of environmentally hazardous goods.
- **Basics of Estonian security policy.** Keyword: TEN-T rail network.
- **National plan *Estonia 2030+*.** Keywords: mobility, sustainable public transport system, intermodality, potential of passenger train traffic, change in time-space distances, freight transport and transit.
- **Transport development plan for 2014–2020.** The activities of Estonian Railways are related to following measures: 1.3. favouring more sustainable modes of transport; 5.1. development of national public transport connections; 5.2. development of regional public transport connections; 6.4. development of passenger train connections; 7.1. development of freight transport infrastructure; 7.2. developing a regulatory environment conducive to international transport.
- **Action plan guiding the development of public railway infrastructure for 2019–2024,** identifying nationally significant rail infrastructure investments.
- **Estonian National Road Safety Programme for 2016–2025.** Estonian Railways is related to the measure whose goal is to reduce traffic accidents at railway crossings.
- **Energy economy development plan until 2030.** Keywords: development of transport modes with lower environmental impact, movement of freight transport by rail.

Shorter-term plans do not include, for example, the Estonian Renewable Energy Action Plan until 2020, the Competitiveness Plan *Estonia 2020*, Estonian Maritime Policy for 2012–2020 and Estonian Tourism Development Plan for 2014–2020.







## Strategy of Estonian Railways for years 2019–2024

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

The strategy of Estonian Railways for years 2019–2024 was approved in 2018 and is based on four pillars.

### INFRA- STRUCTURE

modern, fully automatic traffic management, safe and optimal infrastructure and self-sustaining company

### TRAINING AND DEVE- LOPMENT

value-based, environmentally-friendly and socially responsible corporate culture and professional and motivated employees

### CUSTOMERS

increasing the volume of passenger and freight transport in cooperation with customers, incl. expanding the target group of customers

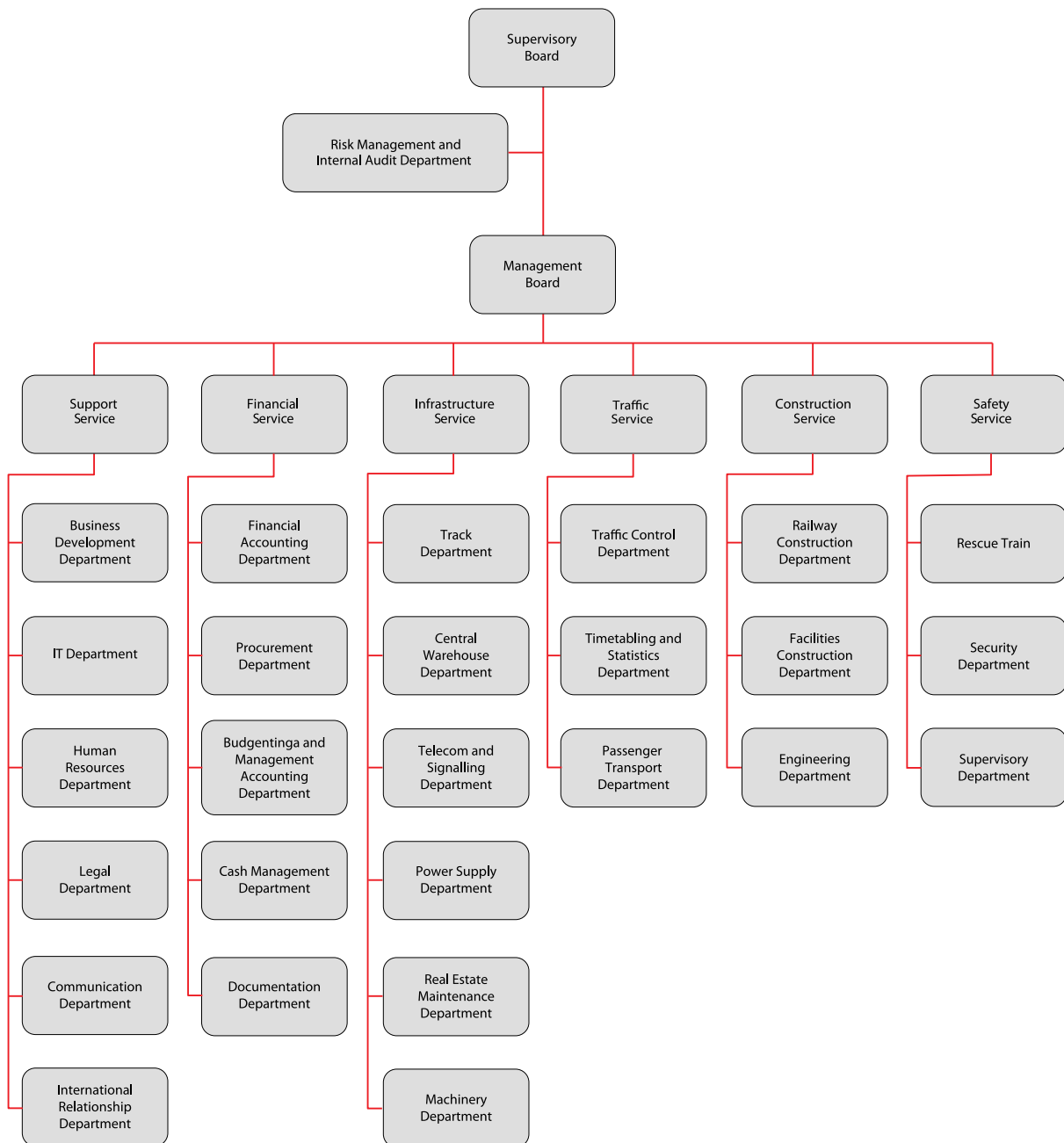
### INTERNAL PROCESSES

optimised and digitised processes, vision zero in railway safety

The starting point of the strategy was the state of the infrastructure by the end of 2018, when the nominal lifetime of the safety systems in use was sometimes longer than a decade. Outdated systems and lack of investments have been the biggest bottleneck in the infrastructure of Estonian Railways.

The whole transport sector is moving towards more sustainable management and digitalisation. This includes the operational efficiency, energy efficiency and sustainability of various modes of transport, as well as safety. For Estonian Railways, this means better accessibility and higher digitalisation, and these are also the Company's strategic priorities.

# ORGANISATIONAL CHART



Effective from 1 October 2019

# MANAGEMENT

## Managing bodies

The Management Board of Estonian Railways has two members.



### **Erik Laidvee**

Chairman of the Management Board, CEO

Chairman of the Management Board since spring 2017, previously CEO of Transiidikeskus AS. His strengths are his good knowledge of ports, logistics chain and transit mechanisms, and the Russian business sector. He also has long-term experience in organisational management.



### **Andrus Kimber**

Vice Chairman of the Management Board, CFO

Member of the Management Board since autumn 2017. He has a strong financial and environmental background, previously worked as a Head of Credit at SEB Bank and was a member of the Management Board of the Environmental Investment Center.

#### **Members of the Supervisory Board:**

Priit Rohumaa (Chairman)  
Siiri Lahe  
Ain Tatter  
Raigo Uukkivi  
Enn Veskimägi

#### **Members of the Audit Committee:**

Jaak Annus (Chairman)  
Roman Laidinen  
Priit Rohumaa

#### **Members of the Supervisory Board Safety Committee:**

Tamo Vahemets (Chairman)  
Dago Antov  
Tauno Suurkivi  
Sirle Loigo

## Guiding principles, value-based organisational culture

As a state-owned enterprise, we must always be completely honest in our actions. We have consciously paid a lot of attention to the promotion of management culture and business ethics in recent years, and as an organisation we have made great progress in this area.

In the last few years, we have developed together with our employees corporate values, strengthened targeted management, improved management reporting and strengthened the internal control system. A large number of the Company's managers have changed in recent years - we have created a value-based team of senior executives. With all this, our policies reach the rest of our employees, we can make management decisions and ensure transparency and compliance with the law.

We implement the Corporate Governance Code, the report of which is provided on pages 72-75 of this report.

**We have paid a lot of  
attention to promoting  
management culture  
and business ethics**

We are constantly making an effort to further raise the awareness and understanding of the entire organisation of the importance of this principle by clarifying this mind-set to a wider range of managers and employees.

### Value-based organisational culture

We encourage employees (by recognising and motivating them) to behave according to values. Each year, we recognise our employees with value awards for advancing or excelling in this field.

We have zero tolerance to fraud and corruption. Ethical values of employees are one of the foundations of the Company's success and strength. We introduce values and a code of ethics to all new employees. Our goal is to take all necessary measures in the prevention of corruption to reduce possible cases of fraud and corruption. The most important of these measures are:

**We have zero  
tolerance to fraud  
and corruption**

- code of values and ethics;
- regular review of the functioning of risks, controls and internal audit, activities of structural units in the Management Board, Audit Committee and/or Supervisory Board;
- identification of fraud and corruption risks in the risk register;
- procedures for avoiding conflicts of interest and regular declarations of interests;
- limits and principles for making and receiving gifts;
- random background checks for employees (to the extent permitted and available in public databases);
- defined responsibilities and powers;
- procurement procedures and weekly procurement meetings with the participation of independent members;
- cooperation with law enforcement agencies and Corruption-Free Estonia NGO;
- instructions for reporting misconduct (incl. misconduct procedure) and channels (telephone, e-mail, hotline);
- more frequent registration of incidents and incidents;
- long-term training plan (corruption prevention and risk management) and regular training.

In 2019, 230 employees participated in information days on the Company's values and code of ethics. 110 employees took part in corruption prevention trainings. In addition, separate anti-corruption training was provided to the members of the Management Board, Supervisory Board and Audit Committee. Estonian Railways has been providing corruption prevention training for its employees for five consecutive years, and continues to do so regularly.

In 2019, there were no cases of corruption or other significant non-compliance with the law related to the Company.

### Risk management

Through risk management, the Company obtains assurance that strategic and operational objectives are being met in a controlled manner and that potential risks are properly covered by effective and efficient mitigation measures.





At Estonian Railways, the Management Board is responsible for risk management. The Supervisory Board, its Audit Committee and the Risk Management and Internal Audit Department are responsible for supervising risk management activities and processes. In the course of the internal control system and risk management, people are appointed who are responsible for the effective operation of the lines of defence and the effective management of risks.

The Company's risk management is progressive and focused on risk prevention - for this purpose, the appointed risk manager is required to implement the best measures to mitigate the risk factors.

Estonian Railways uses an internal control system model which includes risk management. We are one of the few companies where risk management and internal audit functions are implemented in one department. As internal audit receives input for its work from risk assessment, closer cooperation between the two functions enables to deal with problems more efficiently and effectively. Greater integration of internal audit and risk management is certainly a growing trend in the world, which supports stronger functioning of the internal control system as a whole.

The principles of risk management are formulated as a document that describes the general risk management policy, the risk management process at Estonian Railways as well as the roles and responsibilities of the parties. Part of the risk assessment process is workshops where we review the characteristics that affect and trigger the risk and analyse the suitability and effectiveness of the mitigation measures implemented.

### **Financial, operational and strategic risks**

Our financial risk management is based on the financial risk management procedure valid from 2018, which ensures the liquidity and preservation of our financial assets. When managing financial assets, our financial service considers and manages liquidity, currency, interest rate, credit and market price risks. The financial risks of Estonian Railways are disclosed in Note 2 to the financial statements (see pages 95-98).

In the financial year 2019, the financial risks were sufficiently managed and the Company was not exposed to any significant financial risks.

The main strategic and operational risks include the market situation, regulations and infrastructure financing, infrastructure capacity, and compliance with railway network requirements. At the operational level the factors are related to, for example, financial accounting, procurement, quality, process efficiency, information exchange, purpose and maintenance of assets and infrastructure (incl. by rolling stock, due to vandalism, etc.)

### **Leadership, ethics, corruption**

Management of ethical and corruption risk is covered under governance (see pages 27-28). The basis for honest and ethical activities is the value-based behaviour of the management, employees and partners. In the risk management system, we assess the adequacy of training and information activities on employee honesty and ethics. We have zero tolerance to corruption.

### **Information security, data protection**

We have a responsibility to protect business information, agreements with partners and customer data. At present, our information security is based on Information Systems Security Measures System (ISKE), approved by a government regulation, primarily used in state agencies. We prepare to base information security on the international standard ISO/IEC 27001: 2017.

In 2019, in cooperation with the Information System Authority, we conducted a cyber security audit to thoroughly analyse our organisational, physical and human-related cyber security risks and prepare a comprehensive report together with an action plan of the applied measures, the implementation of which was one of the most important activities of the financial year.





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## Environment

Environmental risk management is based on compliance with environmental requirements and the procedure for handling and utilising environmentally hazardous substances. The principles of environmental protection are integrated into the guiding principles and activities. We want to do more than is required by law and actively contribute to environmental protection.

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## Employees

The main risks related to personnel and the work environment are the ability to fill positions, the regulation of employment relationships, the competence and motivation of employees, negligent or incorrect behaviour and occupational safety.

In order to ensure occupational safety, all positions of Estonian Railways have been assessed with risk factors that result from the performed risk analyses and measurements of hazardous parameters. The most important risk factors affecting different positions are, for example, night work, railway traffic, risk of exposure to electricity. From 2017, risk analyses will be constantly updated.



# RELATIONS WITH STAKEHOLDERS

## Open communication

As a state-owned company, Estonian Railways wants to be a reliable partner for all stakeholders. We make a determined effort to improve open internal and external communication. The Company's communication principles are set out in the communication strategy. In communication with internal and external audiences, we value clarity, openness and honesty.

In its communication, Estonian Railways focuses on:

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

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We consider clarity, openness and honesty important in our communication with target groups

Public interest in the activities of Estonian Railways is growing, which is why we are increasingly focused on raising awareness and proactively sharing information. In 2019, our media coverage items totalled 2,129 (2018: 2,037), of which 236 were positive, 83 were negative and 926 were neutral. The share of positive news has increased considerably (2019: 19%, 2018: 14%) and the share of negative news has decreased (2019: 6.7%, 2018: 15%).

Since 2019, we issue a more comprehensive annual report, in which we more thoroughly deal with various aspects of our activities. In 2019, we also opened our communication channel on Facebook, the aim of which is to communicate bilaterally with the general public on railway issues.

In the case of repairs to railways and level crossings and the diversion of traffic affecting residents and road users, we share information in the media, as well as through the local government.

## Cross-sector cooperation

Cooperation with the widest possible range of stakeholders is important in the activities of Estonian Railways to ensure that railways operate in the best possible way. This includes the membership of Estonian Railways in various organisations.

The European railway policy is influenced by two freight transport organisations: OTIF and OSJD, in the work of which Estonian Railways also participates. We also participate in the Community of European Railways (CER) which is one of the most influential railway lobby organisations in the EU. Participation in the European Commission's PRIME initiative gives us the opportunity to become part of the best practices of EU railway infrastructure managers.

The Company's activities in the CIS and Baltic Rail Transport Council enable us to meet regularly with the representatives of all countries of the 1,520 mm gauge railway network, as well as bilaterally with the

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We participate in several international organisations and initiatives



leaders of Russian Railways. Approximately 50 working meetings are held each year, during which Estonian Railways primarily protects the interests of transport companies in the process of developing and changing regulations.

The activities of Estonian Railways in the development of the 1,435 mm gauge railway network are related to the implementation of the EU regulatory environment and the construction of the Trans-European Transport Network (TEN-T) railway network to Estonian ports. An example is the Rail Baltic project, which will bring not only a second gauge but also new requirements for traffic management, traffic safety and security systems. The task of Estonian Railways is to ensure their interoperability with the existing railway infrastructure with a 1520 mm track gauge.

Estonian Railways is associated with several organisations promoting responsible management. In 2004, we participated in the establishment of the NGO Operation Lifesaver Estonia (OLE), which is guided by the principles of a similar global organisation. We are a founding member of the Estonian Environmental Management Association and have been represented on its board since 2006. We have a cooperation agreement with NGO Corruption-Free Estonia and we have joined their Honest Enterprise Network. Since 2018, we are a member of the Responsible Business Forum.



*Since 2018, we are a member of the Responsible Business Forum*

As a legal entity, Estonian Railways belongs to the following professional associations and company networks:

- The Community of European Railway and Infrastructure Companies (CER), based in Brussels;
- Platform of Rail Infrastructure Managers in Europe (PRIME);
- Estonian Chamber of Commerce and Industry;
- NGO Logistics and Transit Association (LTA);
- NGO Rail Baltic Business Network;
- MTÜ Operation Lifesaver Estonia;
- Estonian Environmental Management Association (ESMA);
- NGO Responsible Business Forum;
- NGO Transparency International Estonia (MTÜ Korruptsioonivaba Eesti).

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

- Organisation for Co-operation between Railways (OSJD), based in Warsaw;
- Intergovernmental Organisation for International Carriage by Rail (OTIF), based in Bern;
- Council of the CIS and Baltic Railways (COBET - Совет по железнодорожному транспорту государств-участников Содружества) located in Moscow.

# ACTIVITIES AND RESULTS IN 2019

## Goal-based management

In 2019, Estonian Railways focused on streamlining its key internal processes, developing infrastructure and increasing speeds, prevention work related to railway safety and raising the level of responsibility.

For Estonian Railways it is a positive development that it has been possible for the state to allocate government grants to the Company to meet its performance targets and large investment grants. In 2019, the government also decided to launch the electrification of the railway and the preliminary design of Turba–Rohuküla railway.

Estonian Railways agreed with the owner on the following performance targets for 2019:

- |   |  |   |
|---|--|---|
| ■ Maintaining the maximum speeds of trains between stations.          | ■ Maintaining the capacity of the railway network at the level of 2018.                    | ■ Improving the level of safety at railway level crossings. |
| ■ Reducing the number of train delays due to infrastructure failures. | ■ Limiting the growth of railway infrastructure management costs to 5% (compared to 2018). |   |

In order to meet the performance targets, by 2019 Estonian Railways set 15 performance targets in four areas: business, organisation, investments and business continuity. The table next to it provides an overview of the most important of these.

Based on the Company's strategy for 2019–2024, we have set new goals for 2020, the most important of which are the following.

- |  |  |  |
|--|--|--|
| ■ EBITDA totals at least EUR 29.3 million.   | ■ Renewing the customer management process and creating a contractor certification process.  | ■ Expanding railway safety information activities in kindergartens and schools.                            |
| ■ Launch of investment projects required for the transition to an automated security system. | ■ Approval of the asset management strategy and implementation of a pilot project for infrastructure maintenance at Koidula station. | ■ Developing cooperation with educational institutions and involving young people in the work environment. |
| ■ Start of preliminary design works for electrification of railway infrastructure.           | ■ Raising the level of safety at 20 level crossings and four pedestrian crossings.   |  |

Targets by area	Result
 <h2 data-bbox="325 286 494 322">BUSINESS</h2> <ul data-bbox="244 365 614 566" style="list-style-type: none"> <li>■ EBITDA of EUR 30 million, contributing to the growth of freight transported on the Company's infrastructure, keeping operating costs within budget.</li> </ul>	<ul data-bbox="799 365 1329 499" style="list-style-type: none"> <li>■ EBITDA of EUR 29.7 million, freight volume at 13.2 million tonnes (decreased by 2.4% compared to 2018) and operating expenses were all in line with the budget.</li> </ul>
 <h2 data-bbox="325 701 596 736">ORGANISATION</h2> <ul data-bbox="244 779 695 1133" style="list-style-type: none"> <li>■ Developing responsible business.</li> <li>■ Establishment of an employee development management system, as well as creation of a base of in-house trainers.</li> </ul>	<ul data-bbox="799 779 1374 1178" style="list-style-type: none"> <li>■ The Company was awarded the Gold Label of the Responsible Business Forum for the development of responsible business, and the Company's head office in Telliskivi received the European Green Office Certificate. The Responsible Business Action Plan until 2021 was approved.</li> <li>■ A development management system as well as technical solutions supporting it were created. The database of internal trainers was completed and 359 employees were trained through internal training.</li> </ul>
 <h2 data-bbox="319 1301 568 1337">INVESTMENTS</h2> <ul data-bbox="244 1379 675 1406" style="list-style-type: none"> <li>■ 85% of the investment plan fulfilled.</li> </ul>	<ul data-bbox="799 1379 1230 1406" style="list-style-type: none"> <li>■ 81% of the investment plan fulfilled.</li> </ul>
 <h2 data-bbox="319 1581 711 1617">BUSINESS CONTINUITY</h2> <ul data-bbox="244 1659 707 1946" style="list-style-type: none"> <li>■ Fulfilling the traffic schedule (99%), maintaining the speeds of passenger trains and reducing the number of failures obstructing train traffic to 255.</li> <li>■ Continuation of the asset management project.</li> </ul>	<ul data-bbox="799 1659 1374 1980" style="list-style-type: none"> <li>■ The traffic schedule under the influence of the Company was fulfilled by 99.4% for freight trains and 99.5% for passenger trains, speeds were maintained and they did not affect the passenger train schedule, the number of trains delayed due to infrastructure failures decreased to 235.</li> <li>■ The Company's new central warehouse was completed and the digital warehouse solution has been developed and is in use.</li> </ul>



## Financial indicators and ratios

(EUR million)	2019	2018	2017	2016	2015	2014
<b>Total operating expenses</b>	<b>62.8</b>	<b>63.0</b>	<b>45.8</b>	<b>43.3</b>	<b>48.4</b>	<b>55.5</b>
Revenue	39.5	41.5	32.9	33.0	43.9	51.5
– incl. infrastructure services	34.4	36.7	28.7	29.3	41.2	47.0
– incl. other services	3.5	4.8	4.2	3.7	2.7	4.5
Other income	23.3	21.5	12.9	10.3	4.5	3.9
– incl. government grants for assets	5.3	4.9	4.7	4.2	4.0	3.8
– incl. government grants to achieve performance targets	16.0	16.0	7.5	5.0	0.0	0.0
– incl. other income	2.0	0.6	0.8	1.1	0.5	0.1
Operating profit before depreciation and amortisation (EBITDA)	29.7	29.3	11.9	9.8	13.8	20.8
Net profit	8.9	8.6	-7.6	-10.8	-6.3	-0.3
Cash flows from operating activities	13.0	28.2	-1.3	-0.3	7.5	12.3
Capital expenditure	31.5	26.4	13.8	14.5	13.1	15.5
Assets at year-end	342.6	334.1	304.2	301.4	302.7	309.5
Assets at year-end, excl. government grants	201.9	191.4	186.7	196.6	209.2	223.1
Equity at year-end	159.0	150.1	141.5	149.1	161.1	167.4
Interest-bearing liabilities at year-end	30.8	30.2	33.9	37.8	38.4	43.8
Interest-bearing liabilities / EBITDA (times)	1.04	1.03	2.84	3.86	2.79	2.11
Equity-to-asset ratio (%)	46.4	44.9	46.5	49.5	53.2	54.1
<b>Total operating expenses</b>	<b>53.6</b>	<b>54.1</b>	<b>53.0</b>	<b>53.4</b>	<b>54.1</b>	<b>54.4</b>
– incl. goods, materials and services	10.4	10.0	10.9	11.5	12.6	11.9
– incl. miscellaneous operating expenses	3.8	5.2	4.5	4.6	4.8	5.4
– incl. personnel expenses	18.2	18.2	18.2	17.0	16.7	17.0
– incl. depreciation and amortisation	20.5	20.4	19.1	19.9	19.5	19.8
– incl. other expenses	0.7	0.3	0.3	0.4	0.5	0.4

## Operating income

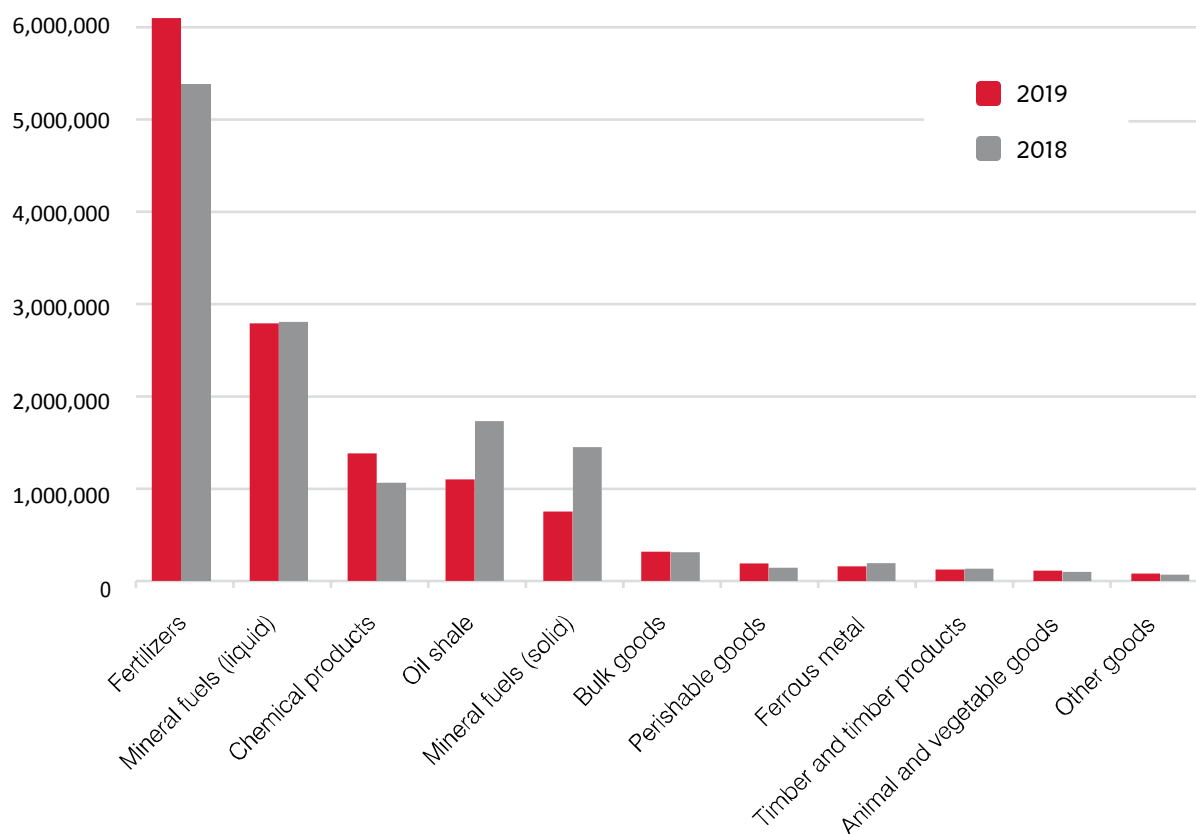
In 2019, the revenue of AS Eesti Raudtee totalled EUR 39.5 million (2018: EUR 41.5 million). Infrastructure services accounted for 87% of revenue (2018: 88%).

Three freight transport companies (AS Operail, AS E.R.S. and AS GoRail) and two passenger transport companies (AS Eesti Liinirongid on domestic passenger transport and AS GoRail on the international passenger train route Tallinn–St. Petersburg–Moscow under a procurement contract) operate on the infrastructure assigned to Estonian Railways for public use.

In 2019, 13.2 million tonnes of goods were transported on the infrastructure of Estonian Railways. As compared to 2018, the freight volume decreased by 2.4%. The freight transport company Operail AS transported almost 100% of the goods.

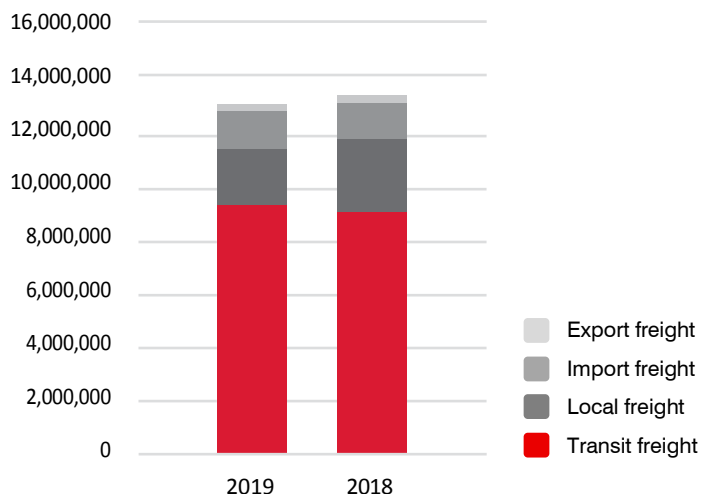
In 2019, fertilizers still made up the largest share of the goods transported, totalling 6.1 million tonnes and increasing by 13.4% as compared to the previous year. Rail transport of liquid petroleum products totalled 2.8 million tonnes, decreasing by 0.7% as compared to 2018. The transport of chemical goods increased by 29.6% and totalled 1.38 million tonnes. The transport of oil shale (1.1 million tonnes) decreased by 36.6%. The volume of solid mineral fuels transported was 0.8 million tonnes, i.e. about twice less than in 2018. In 2019, the volume of container shipments was 76.8 thousand TEUs (20-foot standard container), increasing by 46.4% as compared to 2018.

### Freight volumes on the infrastructure of Estonian Railways by commodity groups (tonnes)



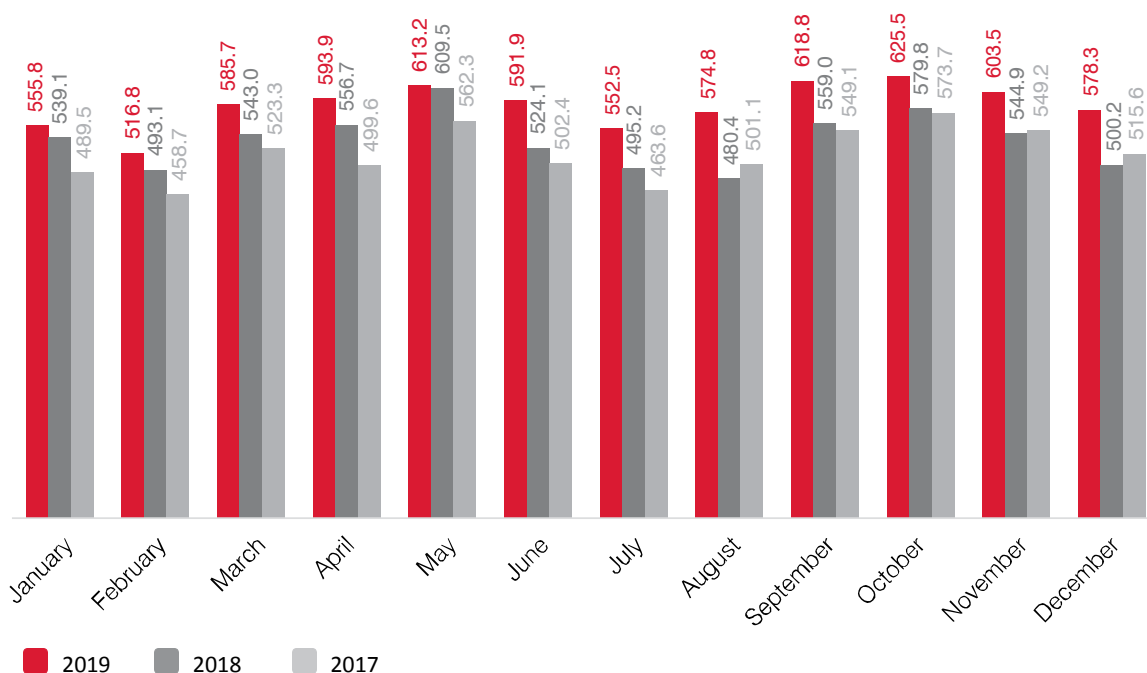
In 2019, transit shipments through Estonia totalled 9.4 million tonnes of goods, i.e. 3.0% more than in 2018. The volume of local shipments decreased by 24.3% and totalled 2.1 million tonnes. Import shipments totalled 1.5 million tonnes, increasing by 7.5%, and export shipments by 0.3 million tonnes, decreasing by 9.4% as compared to 2018.

### Volume (tonnes) and structure of freight transport by type 2018-2019



In 2019, 7.0 million passengers (+9.1%) were transported by diesel and electric trains operating on the infrastructure of Estonian Railways. A total of 111.1 thousand passengers travelled on Tallinn-St. Petersburg-Moscow international passenger train (+3.8%).

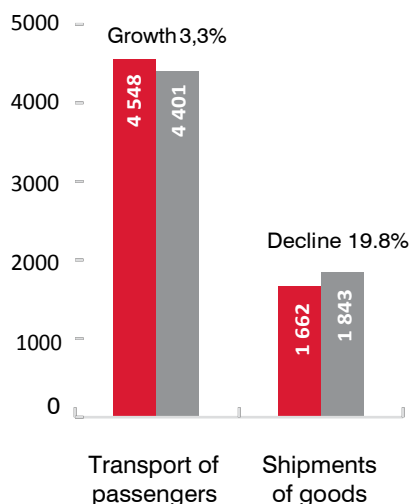
### Monthly number of local passengers (thous.) on the infrastructure of Estonian Railways 2017-2019



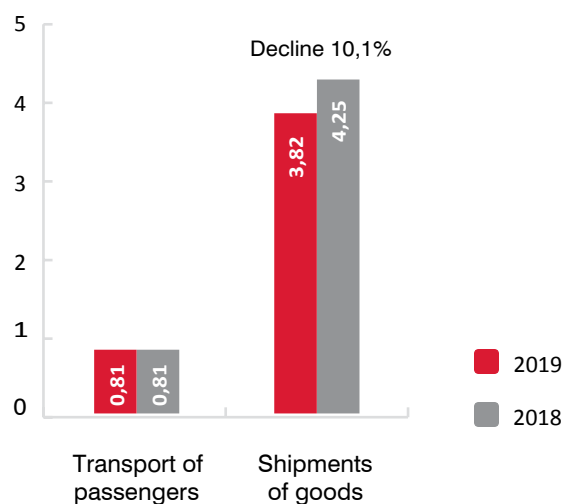


The passenger trains covered 4.5 million train kilometres on the Company's infrastructure which made up 73% of all train usage (2018: 71%).

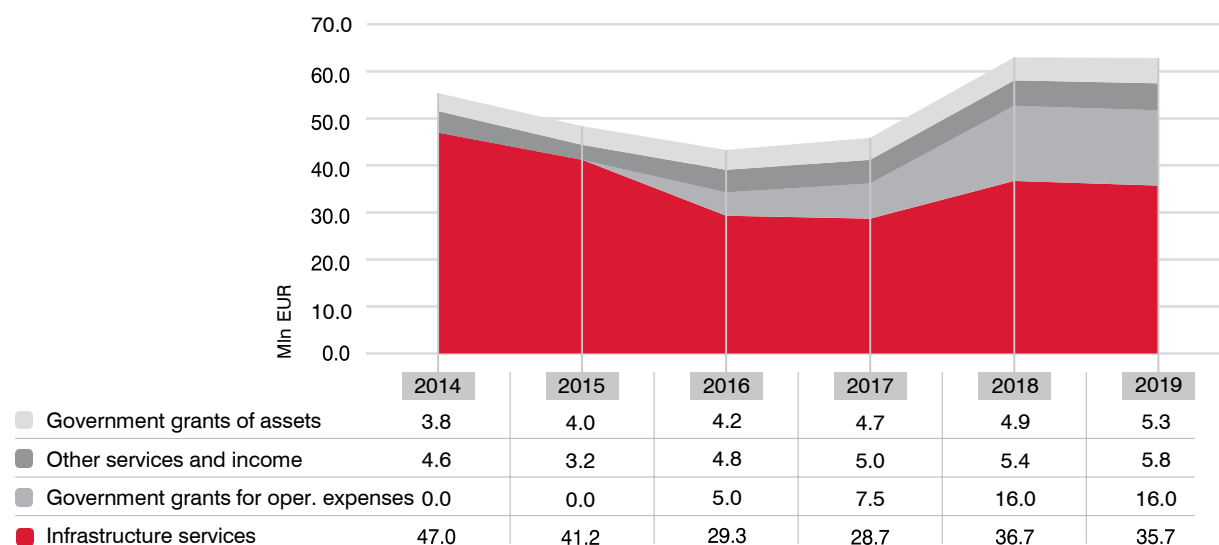
### Train kilometres, thous.



### Gross tonne kilometres, bil.

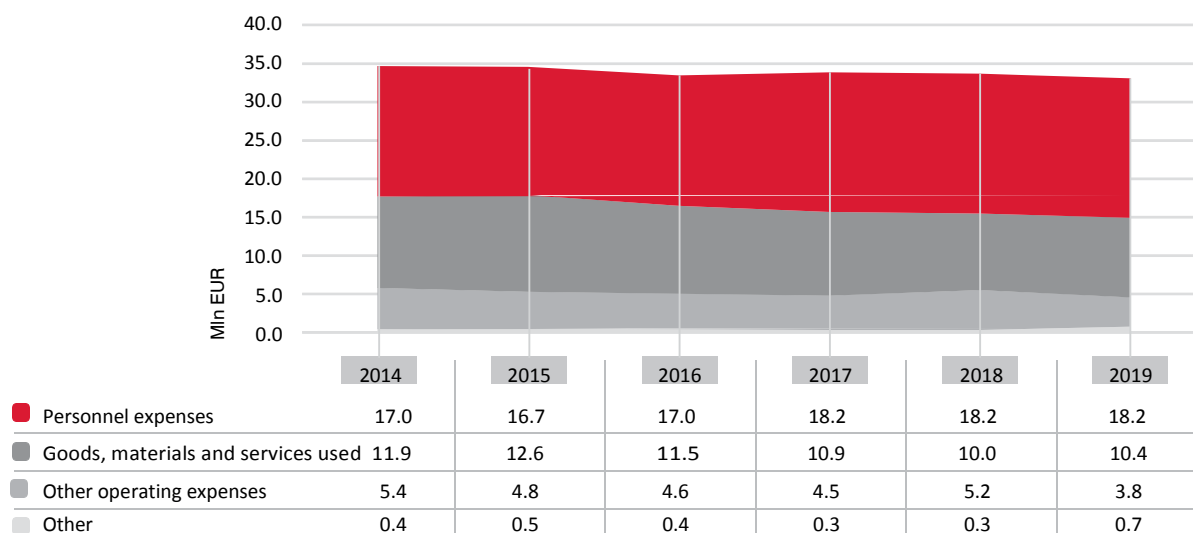


Government grants to achieve performance targets made up 69% of the infrastructure company's other income (EUR 23.3 million) (2018: EUR 21.5 million and 74%, respectively). At the end of 2015, the Company concluded a long-term financing agreement with the Republic of Estonia for allocation of public funds in 2015-2020 to ensure the Company's long-term sustainability of operations and the quality of the railway infrastructure. The agreement ensures that under normal business conditions the Company's revenue consisting of infrastructure usage fees, profit generated by other commercial activities and funds allocated by the state or other persons, and railway infrastructure expenditure would be balanced over a five-year period. Under this agreement, EUR 7.1 million was allocated to the Company in 2019 (2018: EUR 16 million, recognised in 2019 as other income from reaching the targets).



## Operating expenses

In 2019, the operating expenses of Estonian Railways totalled EUR 53.6 million (2018: EUR 54.1 million), decreasing by approximately 1%. The cost of goods, materials and services used increased by 4% as compared to the previous year due to higher infrastructure material and maintenance costs. Other operating expenses decreased by 27%. There were no changes in personnel expenses as compared to 2018.



## Profit for the year

In 2019, the EBITDA of Estonian Railways was EUR 29.7 million, which is 1.5% higher than in 2018. Similarly to 2018, the Company earned both operating as well as net profit, partly attributable to the growth in government grants received for attaining performance targets of prior years.

As at 31 December 2019, the Company's assets totalled EUR 342.6 million (2018: EUR 334.1 million), of which property, plant and equipment accounted for EUR 294.1 million or 86%.

The financial ratios were in compliance with the requirements set by the keys creditors.

## Capital expenditures

Railway reconstruction works are an important part of the daily operations of Estonian Railways. While in 2018, the Company's capital expenditures totalled approximately 26 million, in 2019 they totalled over EUR 31 million. In 2020, Estonian Railways will continue to invest in the railway infrastructure, using the funding from the Structural Funds of the European Union. The total capital expenditures in 2020 are expected to be EUR 45 million, of which EUR 18 million will be co-financed from the state budget (European Union and Republic of Estonia).

The largest repair projects of 2019 are listed below.

### Lääne-Harju consolidation project – EUR 14.1 million.

The main purpose of Lääne-Harju consolidation project is to reconstruct Lääne-Harju railway lines (Tallinn-Keila-Paldiski; Klooga-Kloogaranna; Keila-Riisipere-Turba) and the related technology solutions. With this project, we wish to

increase the railway capacity, improve the continuous operations of traffic management and other technical systems, as well as the level of safety and security, and make the management, operation and use of railway as efficient and automated as possible. The capital expenditures will lead to tighter train schedules, modern passenger platforms with digital information displays, better access for passengers and also better freight transport opportunities. Replacement of technologies and details that are at the end of their lifecycle and use of new materials will increase the safety and reliability of rail traffic.

Highlights of 2019:

- Construction of Riisipere–Turba railway 6.1 km,
- major overhaul of the railway track 4.5 km,
- installation of switches 17 pcs,
- modernisation of traffic management systems in Klooga and Riisipere stations.



*Construction of Riisipere–Turba railway*

### **Reconstruction of Tapa-Narva railway and increasing the speed up to 135 km/h – EUR 11.3 million.**

The purpose of the project is to ensure traffic safety and continuous operations on Tapa-Narva railway sections, reduce the number of speed limits and increase the speed for passenger trains up to 135 km/h and that of freight trains up to 80 km/h. The plan calls for railway reconstruction of 54 kilometres on Tapa-Narva railway line (Tapa-Kadrina and Kabala-Jõhvi sections). In addition, we will invest in additional safety measures – adding barriers to level crossings, install traffic lights to most popular pedestrian crossings, improve lighting and put up a fence surrounding the railway in dangerous locations.

Highlights of 2019:

- Major overhaul of railway tracks 34 km,
- reconstruction of two railway bridges ,
- agreement reached to reconstruct the automation of level crossings.

### **Reconstruction of the surface coating of six level crossings and two pedestrian crossings – EUR 0.8 million.**

### **Reconstruction of bridges and culverts – EUR 0.7 million.**

#### **Other projects:**

- Construction of the central warehouse building and warehouse system – EUR 0.7 million.
- IT-investments – EUR 0.8 million.



# RESPONSIBLE SERVICE

As a railway infrastructure company, we need to create conditions for safe railway traffic of goods and people. Passenger transport companies, train passengers and freight transport companies expect high-quality services from us – besides safety, a well-maintained infrastructure and excellent customer service. To provide the best service we need to ensure continuous railway operations, necessary capacity and scheduled traffic. For us, this is the essence of a responsible service.

We will continue to invest in modernisation of the railway network so that the rail traffic of goods and people would be fast and convenient. Well-maintained infrastructure helps ensure that the rolling stock reaches its destination safely, securely and on time.

## Capacity, continuous operations and maintenance of infrastructure

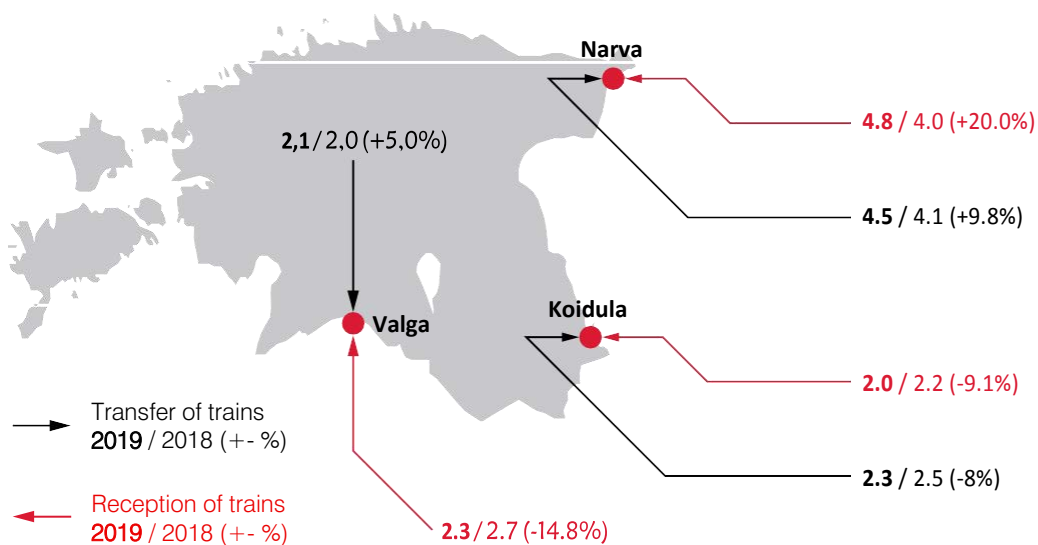
One of the key competitive advantages of Estonian Railways is its free available capacity both on the railway as well as in ports. The development of schedules for passenger and freight trains and adherence to them is a prerequisite for smooth rail traffic. Since heavier passenger train traffic uses a higher share of capacity that is available for sharing, thereby slowing the traffic of freight trains, our task is to find a balance between different interests.

Service quality indicators of 2019:

- Estimated use of capacity in border stations:  
Narva 20.4%, Koidula 14.7% Valga 12.2%, (2018: Narva 17.4%,  
Koidula 16.0%, Valga 13.3%)
- number of disruptions: 1,682 (2018: 1,323);
- number of trains delayed due to disruptions: 235 (2018: 237);
- adherence to passenger train schedules (% of time or  
adherence to schedules): 99.50% (2018: 99.50%);
- adherence to freight train regime (% of time or adherence to  
agreed travel time): 99.50% (2018: 100%)



## Reception and transfer of trains (daily average 2018 - 2019)



Until 2019, the train schedule was impacted by a break at midday that Estonian Railways needed to check the infrastructure and perform urgent maintenance work. Beginning with the year-end 2019, we started to perform these jobs at night. By eliminating the technological window we can add more departures to the traffic schedule. This will create an opportunity for our customers to add additional departures to their schedules to service more customers and thereby offer even better services.

Safeguarding the Company and its territory against incidents of vandalism and theft that is part of the daily work of Estonian Railways is still important for us. Modern technical solutions and equipment are expensive and complex, and for upgrading of the entire railway network it is necessary to make investments into safeguarding our assets.

For this purpose, we:

- have concluded a contract with the security company AS USS Security;
- closely cooperate with the police and the media (notification, identification of violators);
- have provided various technical solutions for the infrastructure sites that ensure their safety.

In 2019, there were 242 incidents of vandalism and the trend over the last several years is downward (2018: 236; 2017: 290; 2016: 332).

As a new security solution, Estonian Railways has tested drones in Kopli freight station. In the future, drones can partly replace patrol security rounds on the station's territory. The drones have been equipped with special pre-set GPS codes and they make security flights at certain times. As an additional opportunity, real-time images can be sent to the control centre of Estonian Railways, enabling the security guards to obtain a quicker overview of the incidents on the Company's territory and prevent quite a few incidents with the Company's assets.

The state of our infrastructure at the year-end 2019:

- share of railway enabling fast rail traffic (120 km/h): 84% (2018: 84%)
- share of renovated passenger platforms: 100%(2018:100%), i.e. all platforms have been renovated within the last ten years.
- Share of infrastructure with a command and control system enabling remote control: 14% (2018: 13%)
- Share of completely upgraded overhead contact lines: 40.4%(2018:39.3%), with the addition of Riisipere–Turba section.

## Rail safety and security

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

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

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





<b>10</b> <b>passenger underpasses</b> constructed over the last years	<b>More than 50 km</b> <b>of fences erected</b> to prevent railway crossing at the wrong place (2019: 9.3 km)	<b>40</b> <b>barrier-equipped level crossings</b> (a total of 150), another 107 crossings will receive barriers by 2024
<b>78</b> <b>automated traffic light</b> equipped level crossings (a total 150)	<b>118</b> <b>signal</b> equipped level crossings (a total of 150)	<b>481</b> <b>media reports</b> on safety topics (2018: 357)
<b>11 million</b> <b>euros</b> of capital expenditures in the coming years for installation of new safety equipment on 103 level and 9 pedestrian crossings	<b>More than 180</b> <b>employees attended training courses</b> in 2019 (2018: 69)	<b>One</b> <b>ISA (<i>Independent Safety Assessment</i>) audit of the automated alarm system on a typical level crossing</b> for compliance assessment of a standard digital automated system

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

#### Preventive work

We have been engaged in raising public awareness of railway safety since 2004. MTÜ Operation Lifesaver Estonia (OLE), established by us, has almost all Estonian railway companies as its members and every year it organises railway safety lectures in kindergartens and schools, reaching up to 5,000 children with its safety information.

#### Rescue capacity

Estonian Railways has high rescue capacity and excellent technology, and has total crisis preparedness. In 2019, 700 people were trained as first responders in case of railway accidents.

#### Incidents

In 2019, there were not any major accidents on the infrastructure of Estonian Railways (2018: 0; 2017: 0). There were nine accidents (2018: 23; 2017: 18), incl. eight cases of people being hit by passenger trains and one case of a vehicle being hit by a passenger train on the railway level crossing. This was the least number of accidents on level crossings in recent years.

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**There were nine accidents on the infrastructure, none of them serious – fewer than in 2018**

Of the accidents involving people being hit by a train, three cases were suicides, two people with severe alcohol intoxication were present on the railway, two bikers failed to let the train pass on the railway pedestrian crossing and one man with headphones stepped in front of the train he had exited.

In 2019, there were neither any incidents of leakage of hazardous goods (2018: 0) nor any collisions caused by the trains of our contractors as well as those of Estonian Railways (2018: 0, 2017: 5)

In 2019, there were ten minor incidents (2018: 9, 2017: 5). The problems still included low-quality thermite welding made by our contractors, resulting in rail fractures.

There were 318 (2018: 356) technical incidents. The growth in incidents was attributable to the malfunctions of communication as well as command and control equipment lasting for more than four hours (2019: 159; 2018: 123). One of the reasons for the growth in the number of malfunctions lasting for more than four hours was the fact that the malfunctions that happened in the after-hours were eliminated, if possible, during the working hours (no disruptions to train traffic).

The results of the safety investigations indicate that in case of people being hit by the rolling stock, the main reasons for accidents included alcohol intoxication and suicide. Another underlying reason is that people are aware of a train approaching but they misestimate its distance and speed. In 2019, the reasons for collisions of a train and vehicles on railway level crossings included the driver's failure to notice the safety devices or approaching trains on the railway level crossing, and hence they did not let trains pass.

### Key railway safety activities in 2019

- At the end of September, we arranged regional emergency training „Kopli raud“, enacting a collision of a passenger train carrying many injured people and a train carrying hazardous goods. The Rescue Board/Rescue Centre of North Tallinn, Northern Prefecture, Tallinn First Aid Service, Tallinn Emergency Medical Service, Emergency Response Centre, Tallinn City Council, AS Operail, AS Eesti Liinirongid, Environmental Board and Environmental Inspectorate participated in the emergency exercise and its purpose was to ensure that all parties reacting to such accidents know exactly how to behave in such cases, which are the roles they need to assume and how to prevent possible mistakes from happening. During the exercise, about 200 first responders were trained. However, during the preparation for the exercise, a total of 700 operational staff was trained by Estonian Railways. Such exercises help us be better prepared for major accidents. A study video was also made of the exercise to be used in various training courses.
- In collaboration with the Consumer Protection and Technical Regulatory Authority, Police and Border Guard Board and USS Security Eesti, we conducted a safety action “Cross the railway safely” for the second consecutive year. Our employees were present at level and passenger crossings to draw people's attention to crossing the railway safely. Those who know how to do it received reflectors and children received railway safety related notebooks.



Safety action „Cross the railway safely“



Regional emergency exercise „Kopli raud“

- We helped the Rescue Board to make a study video targeted at rescue work managers, chemical rescue teams and the Rescue Board's first responders who drive to the location of chemical accidents. The rescue workers were able to play out the situation and a study video was made of it, demonstrating how to handle hazardous goods and how to behave most rationally in case of accidents.
- In September, we gave a joint press conference with Eesti Liinirongid, Operail and Edelaraudtee, to draw attention to the necessity of improving railway and traffic safety. Improving traffic culture can be achieved by means of raising awareness of dangers, and prevention is the most important keyword here.
- In August, the international Handcar Rally to test the skills of railway employees took place for the 11th time, the purpose of which is to draw attention to and raise awareness of railway safety.
- At the request of the demining centre of the Rescue Board, Tapa emergency group of the rescue train helped them test a new and safer detonation solution. In cooperation with Operail and the Estonian Defence Forces a solution worth testing was found: a tank, the ends of which were cut off and that was covered with detonation mattresses on the outside. The purpose of the testing was to come up with a safer detonation location that would essentially make such a dangerous activity much safer.
- We participated in meetings of the PRIME safety culture work group in Switzerland and Belgium, where discussions were held and experiences were shared on the safety of employees working on railway tracks. The experience of the European railway infrastructure companies demonstrates that in the development of safety culture, the railways of larger countries are a few steps ahead. With regard to investments, the focus is on improvement of employee and public safety.



Skill testing of railway employees "The Handcar Rally"



## Communication with customers and final consumers

Our goal is to offer a high-quality service. We value each customer's contact with Estonian Railways and strive to increase the quality of customer experience.

The railway sector as a whole and hence also Estonian Railways need to become more open in communication with customers. Social trends increasingly show that the final consumer also wishes to communicate with the infrastructure manager in addition to the service provider.

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**We are striving for more open customer communication**

In 2019, we made some changes in this area:

- customer service focuses primarily on the freight transport companies and those receiving and dispatching goods, but also on passengers;
- we plan to create a team who would get additional functions in the development of the customer service and who would be able to plan the necessary activities.

Our partners value stability and clarity the most. For the first time, we concluded longer than one-year contracts with our customers, enabling a better planning of their business activities.

One of the key factors in our relations with customers is communication. We wish to be a service provider with an open and clear message both to our customers that are companies as well as each train passenger. For example, we organised information seminars to our partners covering various topics.

## Innovation and digitalisation

Estonian Railways is open to various innovations and many internal projects are related to the implementation of new technologies. Automation and improvement of work processes through digitalisation are the keywords in the actions plans of Estonian Railways in the coming years.

The most important activities in 2019.

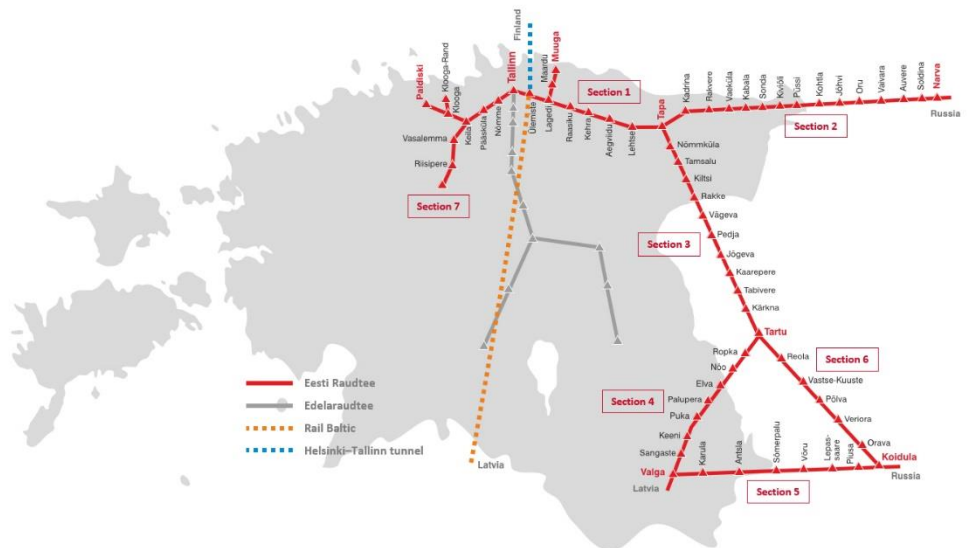
- One of the main goals for the year was digitalisation of the work at railway stations. We installed personal computers in 34 stations to transform daily work processes from the paper to the electronic format as well as to improve internal exchange of information. For this purpose, 120 employees working at railway stations underwent computer training courses .
- By summer 2019, the construction of a new central warehouse of Estonian Railways was completed on the outskirts of Tallinn, at Betooni põik 20 (2300 m<sup>2</sup> PVC hangar to service infrastructure with the related loading and warehousing area) and a new warehouse operation system developed using Microsoft Dynamics 365 was taken into use. It enables receipt and dispatch of goods and taking inventory using smart devices. The implementation of a digital solution has given us an impetus to work in a novel way and it ensures improvement of work processes and quality of data that can afterwards be used throughout the infrastructure.
- We continued development of an asset management system, creating means to process and visualise asset information in real time, as well as making fact and forecast based decisions regarding infrastructure maintenance and supply chain management. We were also involved in the enhancement of the asset management competencies of our employees. We launched a pilot project for an asset management solution to be implemented using Microsoft Dynamics 365 in Koidula station.



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- While planning the modernisation of the networks associated with command and control systems, we arranged meetings with the authorities in charge of the information and telecommunications area (RIKS, RIA, SMIT), to find collaboration opportunities in creating additional value in development of radio communication, standardisation, expansion and operation of networks. It was decided that the telecommunications strategy of Estonian Railways as an important substrategy needs to be compatible with the national communication development strategy.
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- We launched a new traffic management software project TTCMS (Timetabling, Traffic Control and Management System), and carried out a comprehensive market survey to map out opportunities and prepare a project charter. The solution to be acquired enables us to digitalise development of traffic schedules, organise dispatcher centralisation and rail traffic, and it significantly improves analytical opportunities. At the year-end we announced a public procurement and software is expected to be implemented on our entire infrastructure at the end of 2024.
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- In November 2019, we concluded an 11-million-euro agreement for modernisation of the automated equipment of railway level and pedestrian crossings. The agreement concerns the development of the automated solution for 103 level and nine pedestrian crossings on our infrastructure.

- In addition, preparations are underway to modernise command and control systems and develop the concept necessary for subsequent design and construction procurements. In the first quarter of 2019, we launched a comprehensive analysis of the command and control systems and extensive market research, the purpose of which is to obtain additional information about the cost of the implementation of ERTMS/ETCS- (European Rail Traffic Management System/European Train Control System) technologies as well as the readiness of bidders to launch construction. Major European providers of command and control systems participated in this market survey. The procurement is expected to be carried out in the summer of 2020 to modernise the command and control systems of our entire infrastructure.

- **Stage 1 (2020 –2024)**  
Section 2, 3, 4, 6
- **Stage 2 (2021 –2024)**  
Section 1, 5
- **Stage 3 (2025 –2027)**  
Gradual utilisation of the European train control system



- We implemented modern LED technology for automated traffic light signals on level crossings (14 pcs) at Valga-Koidula railway section to improve the visibility of traffic lights and increase reliability of lamps.
- We developed and implemented a big data based methodology in a pilot project to monitor the maintenance quality of command and control systems in maintenance areas.
- We conducted a comprehensive analysis of the telecommunications area of Estonian Railways and approved the development trends. As an innovation , we started to combine telecommunications systems with command and control systems, as both areas require the same competencies from the maintenance team. As the first step, we are setting up a remote support centre for maintenance of the equipment park and networks in the telecommunications and command and control areas. The setting up of the remote support centre will lay a foundation for a competency centre of the telecommunications and command and control area which is the strategic heart of all technology companies.
- We launched a series of innovation meetings throughout the railway company. In addition to Eesti Raudtee AS, the other participants include Operail AS, Edelaraudtee Infrastruktuuri AS, Eesti Liinirongid AS (Elron) and RB Rail AS. The meetings with the primary goal of exchanging information will ensure company-wide synergy as we will discuss current and planned innovations, share our experiences and best practices, and provide an impetus for the success of common projects.



## Information security

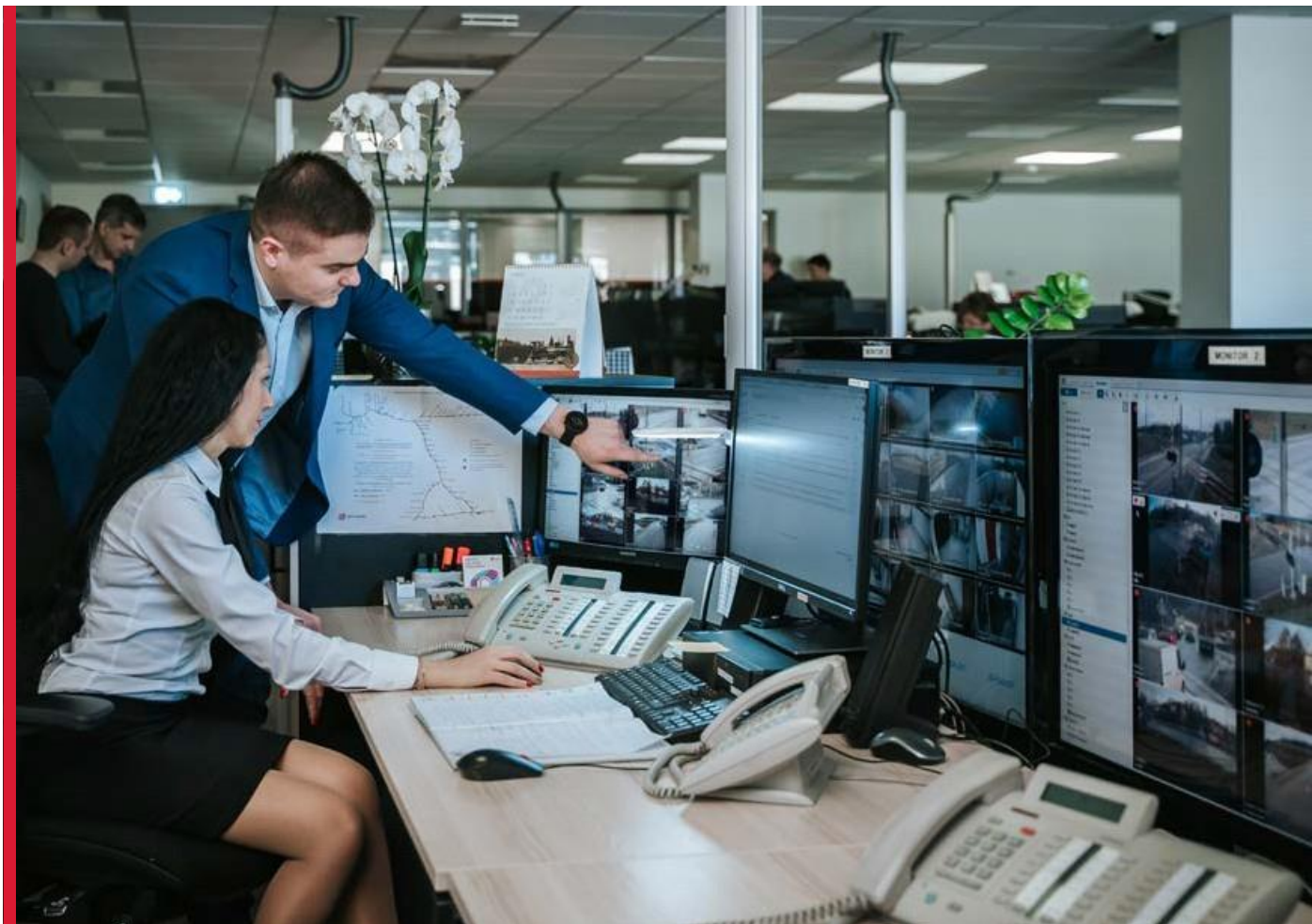
The goal of the information security policy is to ensure uninterrupted functioning of main and support processes, and sufficient protection of personal data and trade secrets handled at the Company. We wish to prevent incidents, if necessary, identify and solve them and recover from a crisis as quickly as possible. As a result, our employees, customers and contractors are able to trust Estonian Railways and know that the processed data are protected at the required level.

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We need to ensure uninterrupted functioning of processes, and protection of personal data and trade secrets

There were no information security incidents in 2019. During the year, we focused on the implementation of the measures outlined in the audit of Information Systems Security Measures System (ISKE) and the cyber audit. The most important goal in the near future is implementation of ISO/IEC 27001:2017.

We also conducted a market research on the analytical capabilities of safety-critical rail networks to identify authorised rail experts for the purpose of conducting a compliance audit on the basis of EN 50159 standard. We also specified information that would be necessary to launch the compliance valuation process. The networks used for the data communication of safety-critical solutions should be brought in compliance with the requirements of the standard to ensure required cybersecurity, safety and continuous operations while using the digital automation solutions on the entire railway network.





## Cooperation with educational and research institutions

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

- In the Horizon2020 programme, Estonian Railways participates as a co-applicant in the project 5G ROUTES, the purpose of which is to test the functioning of 5G in the cross-border corridor, i.e. to search for opportunities of implementation and cross-border operation of transport corridors (land, railway, etc.). The decisions regarding project funding will be made in 2020;
- Collaboration with the Estonian Academy of Arts, where we are able to use the results of two doctoral theses to create a development plan for Balti Station and Kopli peninsular.

To find the best technological and innovative solutions, we have asked Bachelor's and Master's students at various universities and higher educational institutions to use railway-related topics for research purposes.

The representative of Estonian Railways is an expert in his field and hence he is a member of the councils of the Doctoral programme in mechanical engineering, Master's programme in logistics and Bachelor's programme in business. The Company's employees are lecturers in many programmes to the students of Tallinn University of Applied Sciences, Tallinn University of Technology and Estonian Entrepreneurship University of Applied Sciences Mainor, and they provide information about railway safety to kindergarten and schoolchildren.



## Responsible procurements

Each year, Estonian Railways organises procurements worth dozens of millions of euros: various services, construction and repair works, equipment and technology, but also equipment and devices for office work. Being a company with an open attitude, we publish procurements in excess of the EUR 10,000 thousand threshold in the register of public procurements.

In the coming years, the Company's capital expenditure plan foresees an increase in the volume of procurements as well as their complexity.

This will set important requirements for qualified staff to organise procurements and subsequently to review the fulfilment of contracts, as well as for companies participating in procurements.

The goal of the public procurement rules arising from the directives of the European Union is to make procurements generating a cross-border interest available to as many competitors on the European market as possible.

There is a general rule, that the higher the cost of the procurement, the longer the list of companies that the invitation to tender is sent to.

However, 93% (2018: 95%) of procurement contracts of Estonian Railways have been concluded with local, i.e. Estonian partners

– thus our contribution to local economy is significant. Of the total annual cost of procurement contracts (last couple of years: EUR 30–50 million annually), 66% stayed in local economy (2018: 94%). A few major procurements are an exception, as the fulfilment of such procurement contracts is probably out of reach for local bidders and thus, a foreign company is invited to participate in a joint bid or it may become a contract partner alone.

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Volume and complexity of procurements will increase in the coming years

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93% of procurement contracts have been concluded with local partners – our contribution to the economy of Estonia

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

The environmental requirements are often set out in procurement conditions, so that the materials to be procured, or to be used in the provision of services or work need to have the required certificates. If possible, we will lay special emphasis on recycling of materials. When drafting the conditions, we also take into account the costs over the lifecycle, for example, considering the durability of materials and subsequent maintenance costs. Thus, when making a decision it is not only the cost of the product, but also the cost of the lifecycle described in the underlying documents that is taken into consideration.





# ENVIRONMENTAL IMPACT AND MANAGEMENT

We are aware that our activities have an impact on the surrounding natural environment. In our daily work, we try to reduce this impact as much as possible. We use the best possible cost-effective technological solutions, follow changes in legislation and public requirements and do more than legislative acts require of us. For Estonian Railways, it is important to have a responsible and sustainable outlook on the environment.

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

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

Hazardous waste, energy consumption, air pollution, noise and vibration are the key aspects of the environmental impact

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

In 2019, the regular follow-up audit of the ISO 14001 certification was carried out. We evaluated the key environmental aspects of Estonian Railways and prepared action plans to mitigate environmental risks. We also participated in several workgroups on environmental legislation of the Estonian Association for Environmental Management.

An important event for us was completion of Riisipere–Turba railway section in 2019, which represented construction of a new railway for the first time in a long while. For this purpose, the environmental impact assessment was completed in 2018, describing the noise, dust and other pollutants, growth in resource usage, waste and potential emergency situations as the key outcomes of the construction of the railway and transportation. In our surveys, we also assessed the wild animal trails and movement of amphibians and reptiles in the railway corridor, and performed noise modelling.

We followed environmental protection principles in construction. By reinforcing the track bed with soil and gravel, we used the soil of the existing bed to expand it. To prevent the spillage of petroleum products, we took soil samples. When building overhead contact lines, we transported materials (support structures for electric cables, cables, etc.) in the exact quantities necessary to complete the project. By considering the cost of materials and hence their cost-efficient use, the amount of waste was minimal. Sleepers and rails were assembled on spot and they were installed on the track bed with special equipment.



## Energy and air pollution

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

Estonian Railways has adopted a trend to use more cost-efficient systems. In 2018, two Valga boiler houses joined the district heating network. In 2019, we switched from gas heat in the boiler house located in Riia tn 43, Tartu to district heating. We currently own only two large boiler houses, a boiler house in Muuga using light fuel and a gas boiler house in Narva. We calculate their ambient air quality on a quarterly basis. In 2019, the combined emissions of these boiler houses totalled 314 tonnes of CO<sub>2</sub> and 0.4 tonnes of other emissions (more detailed information is provided in the GRI index at the end of the report).

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**We purchased 37.1 GWh of electricity. The air pollution of two boiler houses was 314 tonnes of CO<sub>2</sub>**

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

The plan calls for:

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



In 2019, we purchased 37.1 GWh of electricity, incl. own use and intermediated energy (2018: 40.5); the fuel consumed by vehicles totalled 443 thousand litres (2018: 445).

The most important contribution of Estonian Railways to protecting the environment will be large-scale electrification of the infrastructure. In 2019, the Republic of Estonia decided to electrify the entire Estonia's railway network by the year 2028. The design of the first railway section will start according to the plan in 2020. A total of 800 kilometres of railway needs to be electrified and the project will cost about EUR 300 million. The electrification of the railway will help achieve the goal of reducing carbon monoxide of the Estonian transportation sector. The electrification of the railway is estimated to reduce CO<sub>2</sub> to a level that is comparable to 10% of the amount of carbon emissions generated by road transport. After the complete electrification of the railway, by 2050 the annual reduction of CO<sub>2</sub> would be 90,000 tonnes on average and on the diversion of freight transport from highway to railway by 55,000 tonnes on average <sup>3</sup>.

Railway electrification will reduce the carbon emissions of the Estonian transportation sector

## Materials and chemicals

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

## Waste and recycling

According to the Waste Act, Estonian Railways is under the obligation to hand over hazardous waste to the company holding corresponding license.

<sup>3</sup> Analysis of the possibilities to raise Estonia's climate ambition. SEI Tallinn, 2019.





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

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

In 2019, we disposed of 2,662 tonnes of sleepers that had been removed from use, in addition, 14.7 tonnes of asbestos that had been left on the land of Estonian Railways (unrelated to our activities and since those responsible for it were not found, we disposed of it ourselves) and five tonnes of other hazardous waste.

We try to recycle as much waste as possible.

In our daily work, the bulk of waste generated on our infrastructure (incl. stations) comes from plastic and rubber isolation pieces, oily rags, oils, lubricants, gels and hazardous substances. In 2019, we developed a system for separating waste. AS Epler and Lorenz won the waste management service procurement, installing containers in our stations throughout Estonia to collect various types of waste.

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Since 2019, we used concrete sleepers on new sections instead of wood sleeper

## Noise and vibration

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

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The area affected by rail traffic vibration is ca 25 metres

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

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

In 2019, the noise and vibration survey of the second main track of Keila–Pääsküla line was conducted, the results of which will be taken into account when planning and building a new railway.

## Leaks and spills

We always treat potential leaks and spills with extreme caution. The trains carrying hazardous goods (fuel, fertilizers) may be a source of major soil pollution. In 2019, we had no major accidents or leaks from the rolling stock.

We lease out our Muuga depot to one freight company and since 2013, the concentration limit of pollutants has been above the norm for two pollutants: BHT7, which shows organic pollution and zinc.

We investigated potential sources of pollution and discovered in 2018 that the pollutants come from the coolants of locomotives. We installed an additional cleaning system so that after cleaning, the water discharged from the depot can be directed to the sewage system and hence prevent leakage of pollutants into the environment. In 2019, the threshold limits in water samples were not above the norm.

As a manager of the railway infrastructure, we are aware of our great responsibility to ensure a fast response in case of potential pollution, for the purpose of which we regularly train our employees and pay out various accidents.

There were no major pollutions or leaks

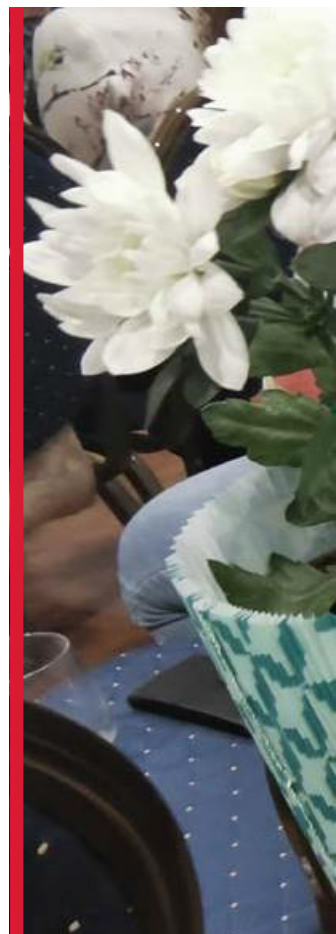
## Wildlife

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

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

The assessment of the environmental impact of the Emajõgi bridge is currently underway and within its framework, research has been carried out on protected plants, aquatic biota and noise. The report of the environmental impact assessment should be completed by April 2020.

For building new railway sections, we also consider the migration routes of wild animals, and we build underpasses for their crossing. For example in 2019, we built the underpass on Riisipere–Turba section so that moose will also be able to fit through.





## Green office

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

For this purpose:

- we use lights with motion detectors to save energy;
- we avoid unnecessary printing of documents;
- people voluntarily gave up garbage bins under their desks;
- we separate waste by type for recycling purposes – there are bins in our kitchens and outside garbage houses for various types of waste;
- we no longer purchase bottled water in the office, we drink clean tap water and offer it our customers;
- we arranged competition to count steps.

The Company's employees are increasingly more environmentally aware and wish to contribute even more to environmental protection. In 2020, we will focus on improving our working conditions, more active use of video conferences, promotion of public transportation, biking and walking.

Our new head office was granted the green office certificate





*Representative of Estonian Railways thanked the men from Veriora who helped liquidate the damage caused by the autumn storm*

## RELATIONS WITH THE LOCAL COMMUNITY

The infrastructure Estonian Railways covers 1,214 kilometres of railway. There are 61 stations and 129 passenger platforms. Throughout the country, there are 150 railway level crossings and 144 pedestrian crossings on our infrastructure. The railway crosses towns and cities – in one way or another, every person in Estonia is in contact with the railway. Our task is to inform the general public of what is happening on the railway and ensure safety in every section of the railway at any time.

By building new railway level and pedestrian crossings we also involve the representatives of the local government and the community in the planning stage. We take the habits and desires of local people into consideration to the extent possible.

At the beginning of 2019, Estonian Railways wanted to close the pedestrian underpass leading to the football stadium in Kotka Street, Tallinn for the purpose of repairing its lining walls. Its official use is a utility facility but local people are accustomed to pass through it to get from one end of the city to another and the closing of the underpass created widespread resentment. In cooperation with the city officials we came to an understanding that repair work needs to be performed quickly. Since it represents an important underpass we decided to add lights to the site to ensure its safety and improve convenience of mobility. To improve safety, we also placed a safety fence to the areas adjacent to the railway.

In collaboration with local governments, we have set a priority to also build pedestrian underpasses. In 2019, the Veskitammi tunnel in Laagri and another one, built in collaboration with the local government, in Tabivere were completed. A pedestrian tunnel will also be built in Jõhvi town.

We notify the public of traffic related changes due to repair and construction work (e.g. changes and disruptions in train schedules, traffic partly substituted by busses, for example; traffic or redirected or halted), people are also informed by local governments and through the website of the company servicing the passengers.

To take into account the needs of the local community, we need to consider the following aspects when performing construction and repair work:

- timely and sufficient notification;
- safety during and after performing work;
- noise level which is becoming increasingly important.

In 2019, we received three complaints (2018: 4) about noise, one of which was related to noise due to construction work and two were related to the freight train running through a region.

We are making good progress to blend railway infrastructure into the city space so that people are not even aware of its existence. It requires efficient communication in the safety area, noise barriers and solutions for people movement that would actually meet their needs and solve the problem.

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We are making good progress to blend railway infrastructure into the city space so that people are not even aware of its existence

We value active and bilateral communication with the local community. Thus, we acknowledged and thanked brave men who came to rescue the train on Tartu-Koidula section when it was trapped due to trees that had fallen in the heavy storm in South Estonia in 2019.

Four men – Raul Piirisild, Raito Piirisild, Indrek Piirisild and Margus Soidla – rode the train to Koidula station, removing the trees fallen due to the storm from the railway on this 37-kilometer journey.

“I have worked as a train driver for five years, and this was undoubtedly one of the most memorable and moving events in my career. Both I and the train passengers are very grateful to these men,” commented Artur Lorents, the train driver of Eesti Liinirongid.

The representatives of Estonian Railways and Eesti Liinirongid thanked the men, giving them new chain saws with the necessary accessories as gifts.

# EMPLOYEES AND WORKING ENVIRONMENT

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

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

## Overview and key facts

Estonian Railways employs almost 700 employees: the annual average number of employees was 725 while it was 698 at the year-end. Most of the employees worked in the infrastructure and traffic service, 337 and 264, respectively. The share of women and men in the Company is almost the same.

The average length of service of our employees is 20 years. In 2019, 6.5% of employees voluntarily left the Company (2018: 4.4%).

<b>698</b> employees at year-end (2018: 758)	<b>335</b> women (2018: 365)	<b>363</b> men (2018: 393)
<b>6</b> members of the Management Board and management	<b>491</b> other office workers	<b>201</b> workers
<b>19</b> employees younger than 30 years	<b>264</b> employees who are 30–49-years old	<b>415</b> employees who are older than 50 years
<b>41</b> new employees in 2019, who were still employed at year- end	<b>111</b> employees who left, incl. 46 due to retirement	<b>52</b> average age of employees

The reasons for the decline in the number of employees primarily include digitalisation and streamlining of work processes, and outsourcing of services in some areas.







## Satisfaction

It all starts with appreciation of current employees. According to the employee satisfaction survey conducted in 2018, the overall score that the employees gave to their working at the Company is good; however, three weaknesses were apparent (internal communication, stress level and salary). Therefore, in 2019 we decided to focus on the topics related to employee satisfaction.

In 2019, we did not conduct a company-wide satisfaction survey (the next one will be conducted in 2020).

## Employer reputation, staffing and fair recruitment

Most of the employees of Estonian Railways are between the age of 40 and 60. We are also satisfied when we can offer a job to people of retirement. On the other hand, this is the biggest challenge for us in the human resources area. We need to be able to ensure with our activities that the knowledge and skills of people who are about to retire stay at the Company and as an employer we need to increase our attractiveness primarily amount young people.

According to our estimates, we need to replace 160 retiring employees by 2025 and another 120 employees by 2030.

While in the reporting period, we focused on employee satisfaction, in 2020, the most important task is to improve the reputation of Estonian Railways as an employer and meet our staffing needs.

According to the surveys by Kantar Emor and Instar, Estonian Railways is a prestigious company with an image of being an old and dignified company. Due to its specific nature of operation, its attractiveness is the lowest among young people.

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High average age of our employees is one of the biggest human resources challenges

According to the 2019 survey of CV-Online covering attractive employers, Estonian Railways ranked 10<sup>th</sup>, being the only railway sector company among transportation and logistics companies.



Seniority badge

## Involvement and recognition of employees

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

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We involved our employees in development of our values

To keep our employees in the same information flow, we arrange regular information days (incl. in all regions where our employees work), we publish an internal newspaper four times a year and the key news is available on the intranet.

One of the key internal communication projects in the short term is the development of the intranet that can be easily navigated and managed. This is a cooperation environment that helps us communicate, and it retains documents, process descriptions, project documentation and current information necessary for work in a single place.

We recognise and reward employees whose activities are in line with the Company's values in four categories: cooperation, honesty, innovation and professionalism. In 2019, we additionally gave out three certificates of excellence of Estonian Railways and rewarded 60 employees with seniority badges for their length of service (two of whom had 55 years and one 50 years of employment at Estonian Railways).

We remember our employees on their jubilees, work jubilees, family events, and departure of senior employees.

We also remember our retired colleagues. For example, we organised a Christmas party for about 100 former employees in 2019. We wish that our employees feel valued even after retirement.

---

**We recognise employees who are most in line with our values**

## Remuneration, benefits

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

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

- |   |  |  |
|---|--|--|
| <ul style="list-style-type: none"> <li>■ performance pay based on performance, fulfilment of goals, attitude to work, helpfulness, loyalty, initiative, cooperation;</li> <li>■ three paid health days per calendar year;</li> <li>■ additional paid vacation days for special regime positions;</li> </ul> | <ul style="list-style-type: none"> <li>■ employee insurance in case of occupational accidents;</li> <li>■ quarterly sports compensation of 90 euros – in 2019, 309 employees used it;</li> <li>■ pension subsidy arising from the collective agreement depending on the tenure, 20-50% of the salary;</li> </ul> | <ul style="list-style-type: none"> <li>■ financial aid for joyful events (jubilee, Christmas, Mother's Day, wedding, birth or starting school of a child) as well as in case of a personal loss, such as the loss of a beloved one;</li> <li>■ seniority badges for work jubilees;</li> <li>■ joint events.</li> </ul> |
|---|--|--|

## Relations with the trade union

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

45% of the employees are members of the trade union of Estonian Railways (2018: 48%). The collective agreement of Estonian Locomotive Workers' Trade Union covers all employees of the Company (2018: 100%).

## Work safety and health care

The environment in which the core business processes of Estonian Railways take place is of high risk to the safety and health of employees, due to their occurring on the railway that is open to railway traffic. In occupational safety we proceed from the Occupational Safety and Health Act, various relevant regulations, the standard ISO 45001:2018 and risk assessment.



We have additionally reached an agreement in respect of the following principles throughout the Company.

- |   |   |   |
|---|---|---|
| <ul style="list-style-type: none"><li>■ The policy for management of occupational safety is part of the internal control system of Estonian Railways.</li><li>■ We identify threats, regularly assess risks and devise preventive measures.</li><li>■ We comply with legal acts, current contracts and internal standard documents.</li></ul> | <ul style="list-style-type: none"><li>■ We establish the rules and regulations of the maintenance and leasing of railway infrastructure and oversee their fulfilment so that the activities of railway and other companies would be safe on our railway.</li><li>■ We identify the root causes for work accidents, remove threats and apply measures to prevent incidents.</li><li>■ We involve our employees, representatives of employees and cooperation partners to prevent work accidents, take notice of threats jeopardising occupational health and the working environment as well as their notification, analysis and further review.</li></ul> | <ul style="list-style-type: none"><li>■ All employees implement the guiding principles.</li><li>■ We make guiding principles available to our employees and cooperation partners (new hire induction process, regular training courses, safety mentoring), explain and guide them so that they could help increase occupational safety in the Company.</li><li>■ All employees undergo a health check prior to starting work.</li></ul> |
|---|---|---|

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

When developing the safety system, employees can participate in the discussions and inform occupational environment commissioners and occupational environment members of risks as well as engage in direct personal communication. In 2020, the Company plans to install mailboxes for information and proposals in offices. The issues related to work safety are also laid down in the collective agreement.

The focus of the safety training course in 2019 was safe working on the railway, and about 350 employees and more than 50 employees of the contractor participated in it. We also launched digitalised safety training and mentoring, which will enable to improve monitoring of the process in the future and will leave more time for instructors to be engaged in other activities.

For contractors, we have prepared a package of safety instructions so that all employees receive the same guidance. We have also started to talk more about occupational safety with our contractors. We will renew the section dealing with sanctions following distribution and violation of liability in contracts for services.

In 2019, there was one minor work accident, it did not lead to a loss of working time and therefore, we did not report it to the Labour Dispute Committee (2018: 3). However, we disclosed the circumstances of the work accident over the Company's intranet. We are of opinion that all accidents that have happened or nearly happened need to be discussed with employees in order to prevent them more efficiently in the future.

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350 employees and 50 contractors participated in safety training – the focus was on safe work on the railway

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In 2019, there was one minor work accident

We support employee health promoting activities. In the month of the environmentally-friendly movement, a competition “Step Hunt” was organised for the employees of Estonian Railways. The goal was to promote healthy and environmentally-friendly movement and motivate people to walk as much as possible on foot. The employees took a total of 1,248,833 steps on the “Step Hunt”.

## Training courses and development

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

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

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Our goal is to become a learning organisation, with an emphasis on internal training

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Retiring employees with a long-term experience share their practical knowledge with the young generation



The average number of training hours per employee in different services stayed between 10-30.

In 2019, a new performance appraisal procedure was approved, effective from 2020. Instead of the former focus on performance, we will focus on emphasising value-based behaviour and the development of our employees.

The key activities of employee training in 2019

- We focused on supplying stations with personal computers. This led to the need to upgrade the computer skills of many employees. The results included keeping a larger number of employees in the same information flow over the intranet as well as employee development.
- We launched a programme to train internal trainers so that the knowledge of long-term employees would stay at the Company, and the level of trainers and the study process would be more uniform.
- Estonian language studies for non-Estonian speaking employees. In 2019, there were 12 study groups of the Estonian language, and 153 employees of Estonian Railways received language lessons.
- To enhance the competencies of managers, we launched three training groups (for a total of 60 employees) to undergo various management training sessions (management of people, change, finances, oneself). The goal is to harmonise management quality.
- About 350 employees of Estonian Railways attended the training sessions on railway and occupational safety, while there were 35 employees who attended the first-aid training.

The goal of 2020 is to provide more internal training sessions in the e-environment, using the web environment Confluence.

A programme for young railway workers took place for the 12<sup>th</sup> time in Moscow, organised by Russian Railway. More than 600 young railway experts from Russia and 17 countries around the world participated in it, including three employees of Estonian Railways: Andrei Nagorski, Madis Köpper and Artur Tarmo. Various interactive training courses and activities were provided to young railway workers, as well as activities in collaboration with opinion leaders, representatives of Russian Railways and foreign experts. A cultural programme was also organised for the young participants.

## Diversity, equal treatment, non-discrimination

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

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

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**Our goal is an organisational culture free from discrimination, harassment and humiliation**





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

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

In 2019, there were neither any incidents of discrimination nor labour disputes.

# CONTRIBUTION TO SOCIETY

## Safety awareness in society

Safe and secure train traffic is one of the key goals of Estonian Railways. Every year we make our contribution to raise awareness through continuous training of our own trainers, safety campaigns, training exercises and cooperation projects. The activities in 2019 are described in a greater detail in the chapter on safety and security of the responsible service described on pages 44-47 of the management report.

## Support activities and cooperation projects

In the financial year, Estonian Railways did not provide any financial aid, sponsorship grants or donations, because according to the Company's articles of association, the Company needs to be profitable for three consecutive years, but this goal was not yet attained by 2019.

However, we contributed to a variety of cooperation projects with our know-how, infrastructure and employee time.

- We made the railway stations of Estonian Railways available to the art programme "Siberian childhood. Seventy years since March deportation".

"Siberian childhood" is a series of exhibitions and events commemorating the passing of 70 years from the March deportation. This is part of our collective memory and a personal experience for those who in early spring of 1949 were children or had not been born yet. Over the last two years, the art group SLED has collected the memoirs of the people who had been deported as children and have accompanied them on their research trips to Siberia. The programme is based on close cooperation between SLED and those who were deported.

- We helped to create the armoured train Wabadus and organise its operation.

To commemorate the centennial of the Republic of Estonia and the Estonian War of Independence, the armoured train no 7 called Wabadus was completed. In 2019, the armoured train Wabadus run along the one-time battle route on the infrastructure of Estonian Railways and told the story of Estonia gaining its independence.

- Movie makers and musicians use our infrastructure.

More than 10 projects were filmed on our infrastructure for free, if they complied with our conditions and safety requirements. For example, in 2019 the music video of Artjom Savitski's song "Limonaad" was filmed on the platform of Balti Station. It enabled us to use railway safety related messages in the video. The video has been seen for more than 225,000 times on YouTube.



*An image from music video of Artjom Savitski's song „Limonaad“*



*Safety ambassadors of Estonian Railways go to schools and kindergartens*

## Voluntary work of employees

Each employee of Estonian Railways is the ambassador of the Company's values. The employees of Estonian Railways primarily go to schools and kindergartens to talk about railway safety, both under the framework of "Back to School" initiative as well as on their own initiative. Four senior level executives contributed at least eight working hours by volunteering in 2019.

The employees of Estonian Railways also participate in various safety-related activities on their own free will. We as a company encourage employees' participation in activities to inform the general public and allow them to do so during their working hours.



# CORPORATE GOVERNANCE REPORT

Under section 88 (1)10) of the State Assets Act and Section 5.1 of the articles of association of AS Eesti Railway (hereinafter the public limited company), the public limited company as a state-owned company has to comply with the Corporate Governance Code (hereinafter the CGC) in managing the Company and describe compliance with it in its corporate governance report which is part of the annual report.

As a general rule, the public limited company complies with the CGC principles with some exceptions, describing them and outlying the cause for non-compliance).

## **General meeting**

Since the sole shareholder of AS Eesti Raudtee was the Republic of Estonia in the 2019 financial year, in this report there is no need to deal with the compliance of one CGC principle, i.e. equal treatment of all shareholders.

In addition to the Minister of Economic Affairs and Infrastructure with a controlling shareholding, the General Meeting held in 2019 was attended by the Chairman of the Supervisory Board, members of the Management Board and officials of the ministry of Ministry of Economic Affairs and Communications. The report of the Chairman of the Management Board and the report of the Chairman of the Supervisory Board on the activities of the Supervisory and Management Boards and the control environment were submitted to the meeting. The regular general meeting approved the 2018 annual report of the public limited company. The allocation of net profit was discussed as a separate subject and a separate resolution was adopted on this issue.

The public limited company performs the CGC requirement, and neither the Chairman of the Supervisory Board nor any member of the Management Board was elected as the Chair of the General

Meeting.

In 2019, in accordance with the "Procedure for avoiding conflict of interest" at the public limited company, the members of the Supervisory Board and Management Board, managers of structural units involved in public procurements and members of procurement committees and other employees with the declaration obligation declared their business interests and links to various companies, thereby ensuring potential prevention of procedural restriction of employees.

In the course of the preparation of the annual report, the external auditor performed control procedures regarding prevention measures for corruption and evaluated them as relevant and sufficient.

The public limited company has an effective internal audit function that uses the Auditors Activities Act and the related regulations and international internal audit standards to organise its work. The internal audit department reports to the Audit Committee and the Supervisory Board.

## **Supervisory Board**

Under the articles of association of AS Eesti Raudtee, the Supervisory Board of AS Eesti Raudtee has between four and eight members. The General Meeting elects the members of the Supervisory Board for three years. With the resolution of the General Meeting, the members of the Supervisory Board elect the Chairman of the Supervisory Board responsible for organising the work of the Supervisory Board from among the members of the Supervisory Board. In 2019, the Supervisory Board had five members: Priit Rohumaa (Chairman), Siiri Lahe, Ain Tatter, Raigo Uukkivi and Enn Veskimägi.

The powers of the Supervisory Board are outlined in the Company's articles of association. The Supervisory Board of the public limited company oversees the activities of the Company's Management Board, participates in planning the Company's operations and organising its management, and decides transactions that are outside the scope of its 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 2019, the Supervisory Board held seven meetings and adopted nine resolutions without calling a meeting. One member of the Supervisory Board did not participate in one Supervisory Board meeting but submitted in writing him comments to the agenda items discussed at the meeting, the other members of the Supervisory Board participated in all meetings. All members of the Supervisory Board took part in voting by letter.

At the meetings of the Supervisory Board, the Management Board presented its reports on the Company's financial position and business strategy. The Management Board informed the Supervisory Board of all significant matters and transactions with the cost in excess of 150,000 euros and asked the Supervisory Board's permission for all transactions where a one-off or annual cost exceeded 400,000 euros. The Supervisory Board made a decision regarding the transactions out of scope of daily operations that require the consent of the Supervisory Board as stipulated by law or the articles of association.

The agenda and materials of the meeting of the Supervisory Board are sent to the members of the Supervisory Board prior to the meeting so that the members of the Supervisory Board would have sufficient time to develop their position on all agenda items.

The Supervisory Board has set up an Audit Committee and a Safety Committee.

The task of the Audit Committee which has three members and was set up by the Supervisory Board is to participate in an advisory capacity in issues related to performing supervision, including monitoring and analysing the processing of financial information, the effectiveness of risk management and internal controls, the process of preparing and auditing the financial statements, the independence of the auditor and the compliance of activities with regulatory requirements. In 2019, the members of the Audit Committee were Jaak Annus (Chairman), Roman Laidinen and Priit Rohumaa.

The task of the Safety Committee which has three to four members and was set up by the Supervisory Board is to participate in an advisory capacity in issues related to performing supervision over safety-related matters arising from the specific nature of the rail business. Ensuring safety is one of the key priorities of the public limited company's daily operations, in order to prevent dangerous traffic situations and emergencies, to ensure provision of a safe rail infrastructure and organisation of traffic for all contractual rail transport companies, and to ensure the safety of the Company's staff and the general public. In 2019, the members of the Safety Committee were Tamo Vahemets (Chairman), Tauno Suurkivi, Sirje Loigo and Dago Antov.

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

The members of the Supervisory Board avoid conflicts of interest in their activities, they do not use business offers made to the Company for their private use and they act in the best interests of the Company and the state as the Company's shareholder. The members of the Supervisory Board strictly observe the prohibition on competition and do not engage in any business activities in the same field as the public limited 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 the most economical manner to ensure the Company's sustainable development consistent with the established targets. The Management Board ensures that the Company meets all effective legal and regulatory requirements and organises relevant control and reporting.

The Management Board has approved the rules of procedure stipulating its internal organisation of work, the procedure for adoption of decisions and monitoring of their enforcement and other issues regulating the activities of the Management Board. In 2019, the Management Board held 46 meetings.

According to article 6 of the articles of association, two members of the Management Board may jointly represent the public limited company in all legal proceedings whereby one of them needs to be the Chairman of the Management Board or Vice Chairman of the Management Board. Two members of the Management Board jointly hold the sub-delegation right whereby one of them needs to be the Chairman or Vice Chairman of the Management Board.

The areas of responsibility of the members of the Management Board are specified and their obligations and responsibilities are described in the agreements signed with them.

In 2019, the members of the Management Board were Chairman/CEO Erik Laidvee and Vice Chairman/CFO Andrus Kimber.

AS Eesti Raudtee complies with article 2.2.2 of the CGR in that no member of its Management Board is in the management board of another company or a Chairman of the supervisory board of another company.

The members of the Management Board do not engage in business activities in the same field as the Company and do not have other work-related duties besides their board member responsibilities.

The remuneration of the members of the Management Board and termination benefits are laid down in their contracts concluded with the members of the Management Board, reviewed and approved by the Supervisory Board. In assigning additional remuneration to the members of the Management Board, the Supervisory Board takes into account the Company's financial indicators as well as the particular board members' performance and his or her personal contribution to achieving the financial and operating targets. The total additional remuneration paid to a member of the Management Board during a financial year may not exceed the board member's four-month remuneration. Pursuant to the resolution of the Supervisory Board, in 2019 the Chairman of the Management Board/CEO Erik Laidvee received a bonus totalling three-month average remuneration and the Vice Chairman/CFO Andrus Kimber received a bonus totalling three-month average 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 made by the Supervisory Board.

### **Disclosure of information**

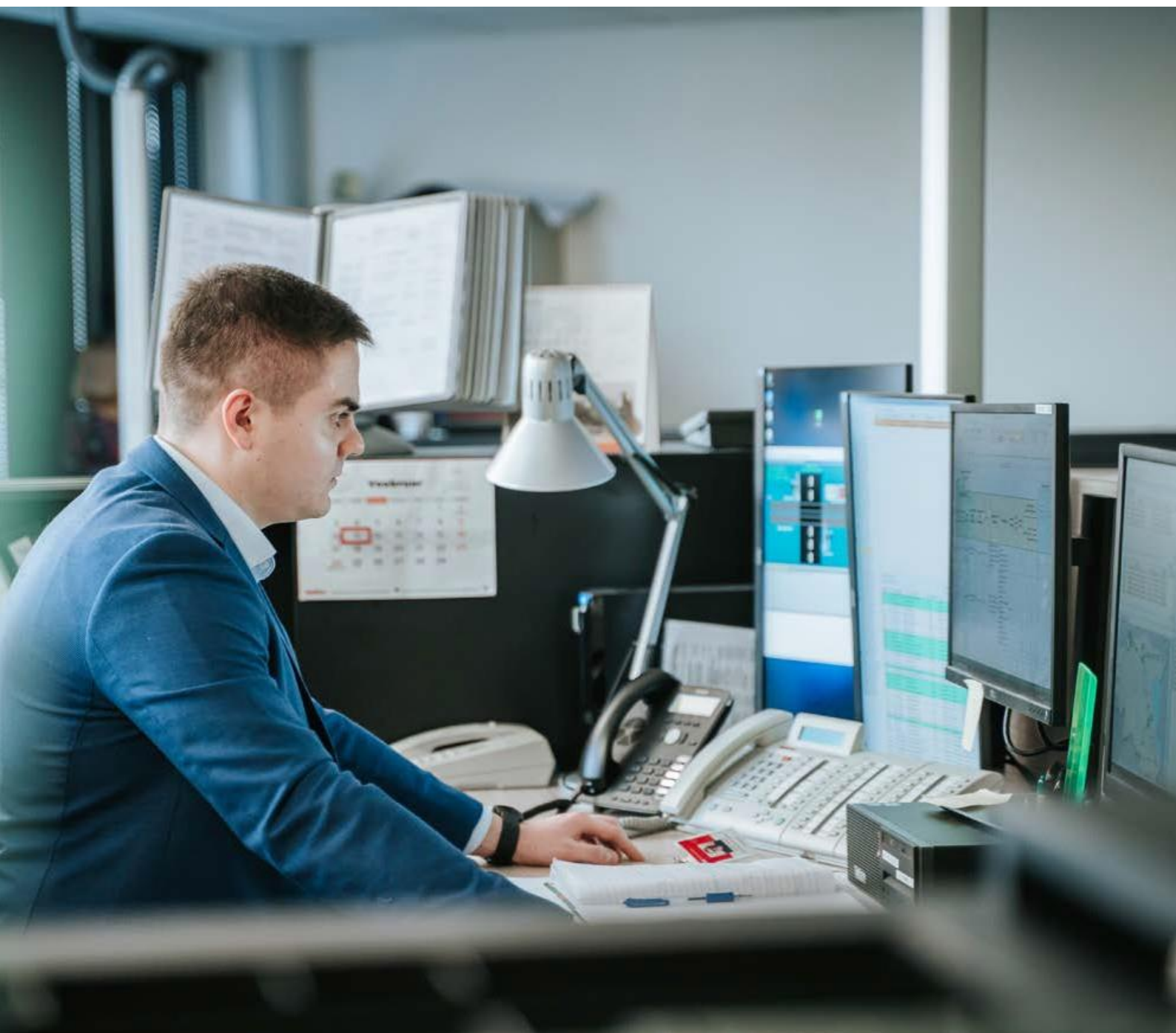
On its website, AS Eesti Raudtee discloses information about the shareholder and the members of the Supervisory Board as well as the members of the Audit Committee and Safety Committee appointed by the Supervisory Board and their tasks, as well as the members of the Management Board.

In addition, the website also discloses the CG report, the articles of association, information about paid benefits and donations, information about the auditor, decisions of the regular general meeting, the public procurement plan and annual reports. In addition, it also discloses the reports for the 1st and 3rd quarter including explanations and comments as well as comparative information, the report on the financial position and the cash flow statement no later than by at the end of the month following the end of the quarter and the income statement, balance sheet and the cash flow statement for the 2nd and 4th quarters within two months following the end of the quarter. On its website, the public limited company discloses information of the key circumstances and events affecting its activities.

On the website, no information is provided on the time of the General Meeting or other information related to the General Meeting because the Company has only one shareholder who receives a notice of the call of the General Meeting together with the materials necessary for making decisions on the agenda items.







### **Financial reporting and auditing**

Eesti Raudtee financial statements for 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Annual report for 2019 prepared by the Management Board was audited by audit firm AS PricewaterhouseCoopers, selected with the sole shareholders decision approving also the fee for the audit. The main conditions for the auditing (incl. fee, period, schedule and audit plan) have been approved by Supervisory Board.









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# Annual Financial Statements

## Statement of financial position

*In thousands of euros*

	Note	31 December 2019	31 December 2018
<b>ASSETS</b>			
<b>Non-Current assets</b>			
Property plant and equipment	3	294,081	277,158
Intangible assets		864	829
Investment property		0	750
Long-term receivables		12	13
<b>Total non-current assets</b>		<b>294,957</b>	<b>278,750</b>
<b>Current assets</b>			
Inventories	4	5,929	6,124
Receivables and prepayments	5	22,790	35,876
Cash and cash equivalents	2.3	18,922	13,336
<b>Total Current assets</b>		<b>47,641</b>	<b>55,336</b>
<b>TOTAL ASSETS</b>		<b>342,598</b>	<b>334,086</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		70,303	70,303
Statutory reserve capital		3,674	3,243
Revaluation reserve for property, plant and equipment		0	323
Retained earnings		85,051	76,266
<b>Total equity</b>	6	<b>159,028</b>	<b>150,135</b>
<b>Non-current liabilities</b>			
Loans and borrowings	7	24,484	24,977
Government grants	16	127,673	122,003
Other non-current liabilities		767	895
Provisions		106	354
<b>Total non-current liabilities</b>		<b>153,030</b>	<b>148,229</b>
<b>Current liabilities</b>			
Loan liabilities	7	6,322	5,249
Trade and other current liabilities	8	11,209	9,808
State funding	16	7,000	16,000
Deferred government grants	16	5,994	4,650
Provisions		15	15
<b>Total current liabilities</b>		<b>30,540</b>	<b>35,722</b>
<b>Total liabilities</b>		<b>183,570</b>	<b>183,951</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>342,598</b>	<b>334,086</b>

Notes to the financial statements on pages 82 to 109 are an integral part of the financial statements.

## Statement of comprehensive income

*In thousands of euros*

	Note	2019	2018
<b>REVENUE AND OTHER</b>			
Revenue	10	39,517	41,523
Other operating income	10	23,328	21,480
<b>TOTAL REVENUE AND OTHER</b>		<b>62,845</b>	<b>63,003</b>
<b>OPERATING EXPENSES</b>			
Goods, materials and services used	11.1	10,371	9,974
Other operating expenses	11.2	3,828	5,220
Personnel expenses	11.3	18,164	18,165
Depreciation and impairment	3	20,533	20,354
Other expenses		737	343
<b>TOTAL OPERATING EXPENSES</b>	<b>11</b>	<b>53,633</b>	<b>54,056</b>
<b>OPERATING PROFIT</b>		<b>9,212</b>	<b>8,947</b>
Financial income and expenses	12	-319	-329
<b>PROFIT BEFORE INCOME TAX</b>		<b>8,893</b>	<b>8,618</b>
<b>PROFIT FOR THE YEAR</b>		<b>8,893</b>	<b>8,618</b>
<b>TOTAL COMPREHENSIVE PROFIT FOR THE YEAR</b>		<b>8,893</b>	<b>8,618</b>

Notes to the financial statements on pages 82 to 109 are an integral part of the financial statements

## Statement of changes in equity

<i>In thousands of euros</i>	Share capital	Statutory reserve capital	Revaluation reserve for property, plant and equipment	Retained earnings	Total
<b>Balance as at 31 December 2017</b>	<b>70,303</b>	<b>3,243</b>	<b>323</b>	<b>67,648</b>	<b>141,517</b>
Total comprehensive profit for the period	0	0	0	8,618	<b>8,618</b>
<b>Balance as at 31 December 2018</b>	<b>70,303</b>	<b>3,243</b>	<b>323</b>	<b>76,266</b>	<b>150,135</b>
Mandatory reserve capital	0	431	0	-431	<b>0</b>
Transfer of revaluation of fixed assets to retained earnings	0	0	-323	323	<b>0</b>
Total comprehensive profit for the period	0	0	0	8,893	<b>8,893</b>
<b>Balance as at 31 December 2019</b>	<b>70,303</b>	<b>3,674</b>	<b>0</b>	<b>85,051</b>	<b>159,028</b>

For more information about equity please refer to Note 6.

Notes to the financial statements on pages 82 to 109 are an integral part of the financial statements.





## Statement of cash flows

*In thousands of euros*

	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating profit		8,893	8,618
Depreciation and impairment of non-current assets	3	20,533	20,354
Deprecation of government grants of non-current assets	16	-5,349	-4,868
Gain on sale of non-current assets	3	-1,630	-113
Adjustment of provisions		-233	15
Gain from revaluation of real estate investment		0	-190
Income from the right of superficies divided into periods		-128	-128
Gain from financing of state budget		-16,000	-16,000
Loss from financial income/expense	12	319	329
Other adjustments		219	-6
Change in receivables and prepayments	5	100	1,917
Change in inventories	4	195	2,774
Change in payables and prepayments	8	-578	-151
Government grants received for covering the cost of operating activities	16	7,000	16,000
Interest received	12	83	13
Interest paid	12	-415	-347
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>13,009</b>	<b>28,217</b>
<b>CASH FLOWS FROM FROM FINANCING ACTIVITIES</b>			
Purchase of property, plant and equipment	3	-29,400	-26,320
Proceeds from sale of property, plant and equipment	3	2,837	284
Government grants received from the state budget for non-current assets	16	0	21,500
Government grants received for non-current assets	16	10,349	8,508
Receipt of cash from a deposit		34,000	0
Cash deposited into a bank account		-19,000	-34,000
Repayment of loans granted		1	1
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>-1,213</b>	<b>-30,027</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of loans received	7	-4,966	-4,966
Repayment of finance lease	7	-1,244	-220
Proceeds from sales-leaseback	7	0	1,520
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>-6,210</b>	<b>-3,666</b>
<b>NET CASH FLOWS</b>		<b>5,586</b>	<b>-5,476</b>
Cash and cash equivalents at the beginning of the year		13,336	18,812
Cash and cash equivalents at the end of the year		18,922	13,336
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>5,586</b>	<b>-5,476</b>

Notes to the financial statements on pages 82 to 109 are an integral part of the financial statements.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## General information

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

The Entity's core business is the management of the railway infrastructure. In 2019, the average number of employees was 725 (782 employees in 2018).

The Management Board authorised the financial statements for the year ended 31 December 2018 for issue on 18 March 2020.

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## Note 1: Significant accounting policies

### 1.1 Basis of preparation and measurement

The Entity's financial statements for 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (hereafter as "IFRS EU").

These financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair value.

### Changes in the accounting policies

#### a) The following new or revised standards and interpretations became effective for the Company from 1 January 2019:

The financial statements are prepared on a consistent and comparative basis, which means that the Company always follows the same accounting policies and principles of presentation. The accounting policies and presentation are amended only if required by new or revised International Financial Reporting Standards (IFRS) as adopted by the European Union and their interpretations, or if the new accounting policy or presentation provides a more objective view of the financial position, financial performance and cash flows of the Company. The accounting policies applied in the preparation of this report are the same as those used in the Company's financial statements for the year ended 31 December 2018, except as described below.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

The Company has adopted IFRS 16 "Leases" from 1 January 2019, but has not restated comparative information for 2018 as permitted by certain transition rules in the standard. Thus, the comparative information for 2018 is presented in accordance with IAS 17 and its related interpretations.

On initial application the entity recognised right-of-use asset in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. The entity measured the lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at the date of initial application, i.e. 1 of January 2019. On initial application, the Company applied the following weighted average lessee's incremental borrowing rates to the lease liabilities: 2.915% for premises and 1.99% for vehicles.

As a practical measure, the Company has elected not to reassess whether a contract is, or contains a lease at the date of initial application, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 "Leases" and Interpretation 4 "Determining whether an Arrangement contains a Lease".

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard for leases previously classified as operating leases:

- a single discount rate has been applied to all leases;
- not to apply the requirements of IFRS 16 to leases for which the lease term ends within 12 months of the date of initial application;
- exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application, and;
- the lease period is determined on the basis of the terms agreed in the contract, even if the contract includes the right to extend the lease.

For leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17. For those leases, a lessee shall account for the right-of-use asset and the lease liability applying this Standard from the date of initial application. This resulted in measurement adjustments in the amount of EUR 5,958 thousand.

Lease liabilities that are recognized in the statement of financial position on initial application, are presented below:

*In thousands of euros*

Future minimum lease payments in relation to non-cancellable operating leases as at 31 December 2018	7,604
Discounted using the lessee's incremental borrowing rate 2.915% for premises and 1.99% for vehicles	-1,622
Short-term lease contracts for which no lease liability is recognized	-24
<b>The total amount of the lease liability recognized in the statement of financial position at the date of initial implementation is 1 January 2019</b>	<b>5,958</b>

Adjustments recognized:

Increase in property, plant and equipment	5,958
Increase in finance lease liabilities	5,958
Net impact on retained earnings as at January 1, 2019	0

For additional information on accounting policies for leases see section 13 of this appendix.

The rest of the new or revised standards or interpretations, which became effective for the first time in the financial year beginning on or after 1 January 2019, have not had a material impact on the Company.



**b) New or revised standards and interpretations have been issued that become mandatory for the Company from 1 January 2020 or later and that the Company has not early adopted**

*Amendments to the Conceptual Framework for Financial Reporting* (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The management assesses the impact of the revised standard on the Company's financial statements.

*Definition of materiality – Amendments to IAS 1 and IAS 8* (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Company estimates that there is no material impact on the financial statements.

*Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020)*

The revised conceptual framework includes a new chapter on measurement, guidance on financial performance reporting, improved concepts and guidance (eg on liability) and clarifications on the role of critical areas in financial reporting, such as diligence, prudence, and measurement uncertainty. The Company estimates that there is no material impact on the financial statements.

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

## 1.2 Critical accounting estimates

The financial statements have been prepared using a variety of management estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are based on management's best knowledge and may not reflect actual performance. Changes in management's estimates are recognized in the statement of comprehensive income during the period in which the change is made. The following estimates have the greatest impact in 2019. financial information.

- Determination of the useful lives of property, plant and equipment

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

2019 the useful lives of items of property, plant and equipment for which plans for their conversion and reconstruction are known.

The weighted average depreciation of fixed assets is 4.0% of the acquisition cost of fixed assets. A change of one percentage point in depreciation rates would change the depreciation charge by 5.2 million per year.

- Determination of the recoverable value of property, plant and equipment

The Company is present for indications of impairment carried out tests on the recoverable amount of fixed assets and, if necessary, has written down the fixed assets. The recoverable amount of property, plant and equipment is tested using management's estimates of cash flows (cash flows from the use or sale of assets, cash flows required for asset maintenance and use). For preparation of the cash flow statement, the Company complies with subsection 492 (5) of the Railways Act and the funding agreement concluded between the Company and the

Ministry of Economic Affairs and Communications in 2015 according to which the state should guarantee the balance between revenue and expenses in the ordinary course of the Company's business over a five-year period. The management estimates that there are no indications of impairment of assets during the reporting period, and therefore there is no need in carrying out a test on the recoverable amount of assets.

### 1.3 Foreign currency transactions

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

### 1.4 Property, plant and equipment

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

#### Acquisition cost

Property, plant and equipment are initially recognized at cost.

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

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

#### Depreciation

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

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

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

## Useful life of items of property, plant and equipment

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

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

### Buildings

Buildings	10 - 100years
Facilities	5 - 80years
Railways	2 - 50years
Machines and equipments	2 - 30years
Other	3 - 20years

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

## 1.5 Intangible assets

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

The costs related to ongoing software maintenance are recognised as expenses at the time they are incurred. Software that is an integral part of hardware is recognised as an intangible asset. The software developed and controlled by the Company is recognised as an intangible asset when the following conditions have been met:

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

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

Software is amortised over 5 years.

## 1.6 Investment property

Investment property is property held by the owner, or the lessee under a finance lease, to earn rentals or for capital and are not used in the Company's business. 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 assessed at fair value using the assistance of external professional real estate appraisers. Gains and losses from changes in fair value are recognised in other income or expenses in the period in which they arise.

When an item of property, plant and equipment is reclassified as 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 as some other asset class, it is subsequently accounted for using the accounting policies applicable to that asset class.

Determining the fair value of investment property is based on the market price of the object. In the absence of an active market the fair value is assessed on the basis of the prices of recent transactions of similar objects or using the discounted cash flow method.

## 1.7 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.

## 1.8 Financial instruments

### Financial assets

#### Classification

The Company classifies its financial assets in those to be measured at amortised cost measurement category. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

#### Recognition and derecognition

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

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



## Measurement

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

## Debt instruments

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

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

## Equity instruments

The Company has no investments in equity instruments.

## Impairment

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

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

The Company measures impairment as follows:

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

## Financial liabilities

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

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

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

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

## 1.9 Impairment of assets

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

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

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

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

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

## 1.10 Revenue recognition

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

### **Revenue from the use of railway infrastructure**

Eesti Raudtee ensures that basic services ensuring access are provided to all rail transport companies as laid down in the Railways Act, i.e. which broadly speaking means that the infrastructure in the Company's ownership is made available for use to rail transport companies. The services are provided according to the agreement concerning the use of the railway infrastructure that is renewed annually for the following timetabling period. The fee for use of the railway infrastructure established in accordance with the methodology of the Minister of Economic Affairs and Infrastructure is determined by the Director General of the Consumer Protection and the Technical Regulatory Authority for the entire timetabling period. Revenue from the use of the railway infrastructure is recognised in the period in which the Company has provided services.

### **Real estate services**

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

### **Sale of inventories**

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

## Other services

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

### 1.11 Employee benefits

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

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

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

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

### 1.12 Income tax

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

The statement of financial position does not recognize a potential income tax liability on the Company's unrestricted equity that would arise from the distribution of the unrestricted equity as dividends. The maximum amount of income tax liability that could be incurred as a result of the payment of all unrestricted equity in the form of dividends is disclosed in Note 13. Dividend income tax is recognized as an expense when dividends are declared.

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

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

### 1.13 Leases

#### ■ The Company as a lessor:

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



## ■ The Company as a lessee:

### Accounting policies effective January 1, 2019.

Leases are classified in accordance with IFRS 16, effective 1 January 2019, in accordance with section 1.1 of this Annex.

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

### ■ Initial measurement

At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.

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

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

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

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

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

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

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

- fixed payments, less any lease incentives receivable;
- Variable lease payments that are index or rate dependent and are initially measured using the index or rate prevailing at the beginning of the lease term.

- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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

### ■ Subsequent measurement

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

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

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

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

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

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

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

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

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

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

#### **Leases - accounting principles until 31 December 2018**

A lease is classified as a finance lease if all the significant risks and rewards of ownership are transferred to the lessee. Assets leased under finance leases are recognized in the statement of financial position at the lower of fair value and present value of minimum lease payments. Other leases were recorded as operating leases.

Lease payments are apportioned between the liability and finance charges so that the rate of interest expense is constant over the net investment balance. The corresponding lease obligation (without interest) is recognized in the statement of financial position as other current or non-current liability. The interest portion of the lease payment is recognized in the income statement as financial expenses on an accrual basis. Operating lease payments are recognized as an expense in the statement of comprehensive income during the lease term.

#### **1.14 Provisions and contingent liabilities**

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

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

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

The Company has to pay benefits for incapacity for work to persons that have lost their capacity for work by the fault of the Company. The 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.

Other obligations whose settlement is not probable or the amount of accompanying expenditure of which cannot be measured with sufficient reliability, but that in certain circumstances may become obligations, are disclosed as contingent liabilities in the notes to the financial statements (Note 14).

#### **1.15 Government grants**

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

#### **Government grants related to purchase of property, plant and equipment**

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

## Government grants related to operating activity

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

### 1.16 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.

### 1.17 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.

### 1.18 Statutory reserve capital

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

### 1.19 Related party transactions

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





## Note 2: Financial risk management

### 2.1 Financial risks

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

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

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

### 2.2 Market risk

Currency risk is the risk that the fair value or cash flows of financial instruments will fluctuate in the future due to changes in exchange rates. Assets and liabilities denominated in euro are treated as currency-neutral assets and liabilities.

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

As of 31 December 2018 and 31 December 2019, the Company did not have any material currency risk exposures because its liabilities were predominantly denominated in euros.

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

	31 December 2019		31 December 2018	
	CHF	RUB	CHF	RUB
Cash and cash equivalents	291	4	250	0
Trade and other receivables	323	0	261	0
Trade and other payables	-227	-4	-250	-1
<b>Net exposure</b>	<b>387</b>	<b>0</b>	<b>261</b>	<b>-1</b>

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

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

Cash flow interest rate risk arises from the Company's floating rate borrowings and is subject to the risk that its financial costs will increase as interest rates rise.

The Company's borrowings are at floating interest rates and are subject to Euribor fluctuations. Compared to 2018, average interest rates in 2019 did not change significantly (Note 7).

## 2.3 Credit risk

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

As at the reporting date, a provision for impairment of trade receivables that is significantly past due is 1/3 of the invoice volume. The expected credit loss provision is established taking into account the customer's past payment behavior and ability to pay and the fact that the Company has a legal basis for the recovery of claims.

Impairment allowance for trade receivables as at 31 December 2019:

*In thousands of euros*

	31 December 2019	31 December 2018
<b>Discount balance at the beginning of the reporting period</b>	<b>0</b>	<b>4</b>
Discounts for the reporting period	75	0
Receivables written off during the reporting period	0	4
<b>Balance at end of reporting period</b>	<b>75</b>	<b>0</b>

Grants receivable from the Ministry of Economic Affairs and Communications are only recognized in the statement of financial position to the extent that they are certain that the receivables will be received because the Company has met all the terms of the grant agreement and the counterparty has entered into a contractual obligation. In view of the past payment behavior and financial position of the grant partner, the Company has no doubt that the receivables will be received, so the Company does not expect the credit loss to have any effect.

Although cash and cash equivalents and bank deposits with maturities of greater than 3 months also fall under the expected credit loss model of IFRS 9, the identified impairment loss was insignificant as at 31 December 2018 and 31 December 2019.

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

*In thousands of euros*

<i>Current accounts and deposits</i>	31 December 2019	31. December 2018	Moody's rating
Swedbank	18,550	24,920	Aa2
SEB Bank	177	230	Aa2
Luminor Estonia	19,192	22,186	Baa1
Bank account of the Company's office in Moscow	4	0	unknown
	<b>37,923</b>	<b>47,336</b>	

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

## 2.4 Liquidity risk

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 instruments used to manage liquidity risk are loans and bonds, operating and financial leasing, sale and leaseback, factoring, guarantee, letter of credit and derivatives. The value of a deposit placed in one bank may not exceed 50% of the company's total funds at the time of deposit.

Liquidity is also enhanced by the contractual billing condition, whereby carriers pay the Company a monthly prepayment of approximately 50% of the infrastructure charges.

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 2019 and 31 December 2018:

<i>In thousands of euros</i>	<b>31 December 2019</b>						<b>Note</b>
	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>	
Bank loans	23,690	24,236	5,182	10,887	8,167	0	7
Finance lease payables	7,115	8,662	1,473	1,401	2,897	2,891	7
Trade payables	4,361	4,361	4,361	0	0	0	8
Other payables	271	271	271	0	0	0	
<b>Total</b>	<b>35,437</b>	<b>37,231</b>	<b>11,112</b>	<b>12,209</b>	<b>11,019</b>	<b>2,891</b>	

<i>In thousands of euros</i>	<b>31 December 2018</b>						<b>Note</b>
	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>	
Bank loans	28,656	29,519	5,243	5,195	16,376	2,705	7
Finance lease payables	1,570	1,608	295	278	1,035	0	7
Trade payables	3,855	3,855	3,855	0	0	0	8
Other payables	118	118	118	0	0	0	
<b>Total</b>	<b>34,199</b>	<b>35,100</b>	<b>9,511</b>	<b>5,473</b>	<b>17,411</b>	<b>2,705</b>	

## 2.5 Operational risk

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



## 2.6 Capital management

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

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

The Company's equity is sufficient for enabling the Company to raise additional debt capital if necessary. Under its loan agreements, the Company has undertaken to maintain its equity to assets ratio at 35% or above. As at 31 December 2019, the Company's equity to assets ratio was 46.4% (31 December 2018: 44.9%). For more information on equity refer to Note 6.

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

*In thousands of euros*

	<b>31 December 2019</b>	<b>31 December 2018</b>
Debt liabilities (Note 7)	30,805	30,226
Cash and cash equivalents (Notes 2.3 and 7)	18,922	13,336
Net debt (debt liabilities- cash and cash equivalents) (Note 7)	11,883	16,890
Equity	159,028	150,135
<b>Total capital (net debt + equity)</b>	<b>170,911</b>	<b>167,025</b>
<b>Debt to equity ratio</b>	<b>18%</b>	<b>18%</b>
<b>Ratio of net debt to total capital</b>	<b>7%</b>	<b>10%</b>

## 2.7 Fair values

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

- Level 1- quoted prices (unadjusted) on active markets for identical assets or liabilities
- Level 2- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3- inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

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

According to the Company's estimate the fair values of financial assets and liabilities recorded at amortised cost in the statement of financial position do not differ substantially from the residual values recorded in the statement of financial position as at 31.12.2019 and 31.12.2018. As most of the Company's long-term loan obligations are bearing a floating interest rate, which varies according to changes in the money market interest rates, their fair value is not materially different from the carrying value.

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



## Note 3: Property, plant and equipment

<i>In thousands of euros</i>	Land and buildings	Right-of-use buildings	Machinery and equipment	Right-of-use vehicles	Other equipment	Construction in progress	Total	Note
<b>31 December 2017</b>								
Cost	415,264	0	74,031	0	1,221	809	<b>491,325</b>	
<i>incl. EU grants</i>	120,540	0	4,083	0	0	0	<b>124,623</b>	
Accumulated depreciation	-172,470	0	-45,540	0	-1,168	0	<b>-</b>	
<i>incl. EU grants</i>	-23,568	0	-920	0	0	0	<b>-24,488</b>	
<b>Carrying amount 31.12.2017</b>	<b>242,794</b>	<b>0</b>	<b>28,491</b>	<b>0</b>	<b>53</b>	<b>809</b>	<b>272,147</b>	
<b>Movements in 2018</b>								
Acquisitions and improvements	1	0	2,373	0	10	23,988	<b>26,372</b>	
Reclassifications	9,113	0	974	0	0	-10,087	<b>0</b>	
<i>incl. EU grants</i>	5,235	0	0	0	0	-5,235	<b>0</b>	
Reclassifications to intangible assets (at carrying amount)	0	0	-829	0	0	0	<b>-829</b>	
Carrying amount of assets sold and written off	-1	0	-177	0	0	0	<b>-178</b>	
Depreciation charge / impairment of fixed assets	-16,339	0	-3,653	0	-33	-329	<b>-20,354</b>	
<i>incl. EU grants</i>	-4,686	0	-182	0	0	0	<b>-4,868</b>	16
<b>Carrying amount</b>								
Cost	421,603	0	70,579	0	1,187	14,381	<b>507,750</b>	
<i>incl. EU grants</i>	125,775	0	4,083	0	0	0	<b>129,858</b>	
Accumulated depreciation	-186,035	0	-43,400	0	-1,157	0	<b>-</b>	
<i>incl. EU grants</i>	-28,254	0	-1,102	0	0	0	<b>-29,356</b>	
<b>Carrying amount 31.12.2018</b>	<b>235,568</b>	<b>0</b>	<b>27,179</b>	<b>0</b>	<b>30</b>	<b>14,381</b>	<b>277,158</b>	
Initial application of IFRS 16	0	4,297	0	1,661	0	0	<b>5,958</b>	1.1
<b>Adjusted carrying amount 01.01.2019</b>	<b>235,568</b>	<b>4,297</b>	<b>27,179</b>	<b>1,661</b>	<b>30</b>	<b>14,381</b>	<b>283,116</b>	
<b>Movements in 2019</b>								
Acquisitions and improvements	30	0	1,612	0	180	29,654	<b>31,476</b>	
<i>incl. right-of-use assets</i>	0	0	97	0	0	0	<b>97</b>	
Addition of right-of-use assets	0	7	0	110	0	0	<b>117</b>	
Removal right-of-use	0	0	0	-16	0	0	<b>-16</b>	
Reclassifications	23,673	0	6,418	0	5	-30,096	<b>0</b>	
<i>incl. EU grants</i>	19,493	0	1,641	0	0	-21,134	<b>0</b>	
Carrying amount of assets sold and written off	-287	0	-168	0	0	0	<b>-455</b>	
Depreciation charge / impairment of fixed assets	-15,543	-473	-3,542	-520	-30	-49	<b>-20,157</b>	
<i>incl. EU grants</i>	-5,151	0	-198	0	0	0	<b>-5,349</b>	16
<b>31.12.2019</b>								
Cost	441,370	4,304	76,758	1,752	1,135	13,890	<b>539,209</b>	
<i>incl. EU grants</i>	145,248	0	8,064	0	0	0	<b>153,312</b>	
Accumulated depreciation	-197,929	-473	-45,259	-517	-950	0	<b>-</b>	
<i>incl. EU grants</i>	-33,406	0	-1,299	0	0	0	<b>-34,705</b>	
<b>Carrying amount 31.12.2019</b>	<b>243,441</b>	<b>3,831</b>	<b>31,499</b>	<b>1,235</b>	<b>185</b>	<b>13,890</b>	<b>294,081</b>	

Largest fixed assets enlisted during 2019:

Tapa-Narva railroad reconstruction	11,295	thous. euros
Turba railway construction	7,752	thous. euros
Tallinn-Keila-Paldiski traffic management	4,191	thous. euros
Tallinn-Keila-Paldiski-Riisipere railroad reconstruction	2,191	thous. euros
Narva railway station building renovation	866	thous. euros
Central warehouse construction	731	thous. euros

In 2019, property, plant and equipment was sold with the sales price of EUR 1,206 thousand (2018: EUR 284 thousand) and property investments with the sales price of EUR 1,631 thousand. Gain from the sale of assets are recognized in other comprehensive income in the statement of comprehensive income in the amount of EUR 1,630 thousand (2018: EUR 49 thousand), see also Note 10.

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

<i>In thousands of euros</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Buildings (buildings and facilities)	52,900	41,857
Machines and devices	23,056	21,919
Other fixtures	895	1,010
<b>Total</b>	<b>76,851</b>	<b>64,786</b>

As at 31 December 2018 and 31 December 2019, no assets of the Company were pledged as loan collateral.

## Note 4: Inventories

<i>In thousands of euros</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Road Administration Spare Parts	4,228	4,353
Spare parts for Telecom and Security Systems	1,255	1,311
Electricity Agency Spare Parts	304	330
Other inventories	142	130
<b>Total inventories</b>	<b>5,929</b>	<b>6,124</b>

In the reporting period, the Company did not write down obsolete or unusable inventories (2018: EUR 177 thousand).

## Note 5: Receivables and prepayments

<i>In thousands of euros</i>	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>Note</b>
Trade receivables	1,201	1,605	
Government Grants Receivables	2,013	0	16
Tax prepayment	366	147	9
Deposits with maturities over three months	19,000	34,000	
Prepaid expenses	205	120	
Other short - term receivables	4	4	
<b>Total Receivables and prepayments</b>	<b>22,789</b>	<b>35,876</b>	

Movements of allowance for doubtful accounts:

*In thousands of euros*

	31.12.2019	31.12.2018
<b>At the beginning of the year</b>	<b>0</b>	<b>4</b>
Loss from doubtful accounts (Note 11.2)	75	0
Write-off of uncollectable receivables	0	4
<b>At the end of the year</b>	<b>75</b>	<b>0</b>

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## Note 6: Equity

### 6.1 Share capital

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

As at 31 December 2019 and 31 December 2018, the Company's share capital amounted to EUR 70,303 thousand 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 EUR 127,823 thousand.

### 6.2 Statutory reserve capital

The statutory reserve capital was not increased in 2019 nor in 2018.

### 6.3 Property, plant and equipment revaluation reserve

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

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

## Note 7: Loans and borrowings

### Loans and borrowings as at 31 December 2019

*In thousands of euros*

	Balance as at 31 Dec 2019	Including non-current portion	Including current portion	Maturity date	Interest rate
Bonds issued to OP Corporate Bank	10,350	8,050	2,300	20.12.2021	6 month euribor + 0.81%
Bonds issued to Nordic Investment Bank	13,340	10,674	2,666	15.12.2024	6 month euribor + 1,33%
IFRS 16 lease liabilities	7,115	5,760	1,356		Average 2,37%
<b>Total Loans and borrowings</b>	<b>30,805</b>	<b>24,484</b>	<b>6,322</b>		

### Loans and borrowings as at 31 December 2018

*In thousands of euros*

	Balance as at 31 Dec 2018	Including non-current portion	Including current portion	Maturity date	Interest rate
Bonds issued to OP Corporate Bank	12,650	10,350	2,300	20.12.2021	6 month EURIBOR + 0.81%
Bonds issued to Nordic Investment Bank	16,006	13,340	2,666	15.12.2024	6 month EURIBOR + 1.33%
IFRS 16 lease liabilities	1,570	1,287	283		Average 1,01%
<b>Total Loans and borrowings</b>	<b>30,226</b>	<b>24,977</b>	<b>5,249</b>		

In 2019, interest expense on bank loans and bonds amounted to EUR 260 thousand (2018: EUR 332 thousand) (Note 12).

### Net debt

*In thousands of euros*

	Cash and cash equivalents	Borrowings with repayment up to 1 year	Borrowings with repayment over 1 year	Total
<b>Net debt as at 31 December 2017</b>	<b>18,812</b>	<b>-5,061</b>	<b>-28 827</b>	<b>-15,076</b>
Loans received		-118	-1,402	<b>-1,520</b>
Loans repaid		5,182	0	<b>5,182</b>
Reclassification from long-term to short-term		-5,252	5,252	<b>0</b>
<b>Net debt as at 31 December 2018</b>	<b>13,336</b>	<b>-5,249</b>	<b>-24,977</b>	<b>-16,890</b>
Loans received		-123	-6,666	<b>-6,789</b>
Loans repaid		6,210	0	<b>6,210</b>
Reclassification from long-term to short-term		-7,159	7,159	<b>0</b>
<b>Net debt as at 31 December 2019</b>	<b>18,922</b>	<b>-6,321</b>	<b>-24,484</b>	<b>-11,883</b>

The Company has signed bond agreements with Nordic Investment Bank (NIB) in 2007 and OP Corporate Bank PLC (OP) in 2016. These agreements prescribe covenants for the financial ratios to be met by the Company. The Company has met the covenants as at 31 December 2019 and 31 December 2018. The bonds will be redeemed with equal instalments twice a year.

As at 31 December 2019 and 31 December 2018 the Company has not pledged any assets as loan collateral.



## Note 8: Trade payables and other short-term liabilities

<i>In thousands of euros</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Debts on goods and services	4,647	3,973
Other debts	24	42
Accruals and deferred income	2,552	2,989
Tax liabilities (Note 9)	1,106	645
Deferred income	2,879	2,159
<b>Total</b>	<b>11,208</b>	<b>9,808</b>

Trade payables in the amount of EUR 4,647 thousand (31.12.2018: EUR 3,973 thousand) include amounts payable to suppliers for property, plant and equipment in amount of EUR 2,442 thousand (31.12.2018: EUR 463 thousand).

Deferred income in the amount of EUR 2,879 thousand (31.12.2018: EUR 2,159 thousand) includes prepayments from railway and railway freight entities for the usage of the infrastructure and prepayment for the right of superficies.

## Note 9: Prepaid taxes and tax liabilities

<i>In thousands of euros</i>	<b>31 December 2019</b>		<b>31 December 2018</b>	
	<b>Tax prepayment</b>	<b>Tax liabilities</b>	<b>Tax prepayment</b>	<b>Tax liabilities</b>
Value added tax	0	425	144	0
Income tax	0	214	0	198
Income tax on fringe benefits	0	6	0	2
Social security tax	0	418	0	405
Obligatory pension fund	0	16	0	15
Unemployment insurance tax	0	26	0	25
Other taxes	0	1	0	0
Balance of prepaid taxes	366	0	3	0
<b>Total prepaid taxes and tax liabilities</b>	<b>366</b>	<b>1,106</b>	<b>147</b>	<b>645</b>

## Note 10: Revenue and other income

### Revenue by activities

<i>In thousands of euros</i>	<b>2019</b>	<b>2018</b>
Infrastructure services	34,419	36,743
Real estate services	528	817
Sale of inventory	1 590	849
Other services *	2,980	3,114
<b>Total sales revenue</b>	<b>39,517</b>	<b>41,523</b>

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

**Revenue by geographical areas**  
*In thousands of euros*

**Total sales to the EU countries**

Estonia	35,527	40,262
Latvia	154	27
Lithuania	19	0
Other countries	7	0

**Total sales to countries outside the EU**

Russia	3,314	1,233
Ukraine	153	0
Belarus	118	0
Other countries	225	1

<b>Total sales revenue</b>	<b>39,517</b>	<b>41,523</b>
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Major part of the Company's sales revenue comes from rendering services to companies under the dominant influence of the Republic of Estonia. Refer also to transactions with related parties in Note 15.

**Other income**

<i>In thousands of euros</i>	<b>2019</b>	<b>2018</b>	<b>Note</b>
Gain on sale of property, plant and equipment	1,630	108	3
Fines, penalties and rewards	189	154	
Financing from the Ministry of Economic Affairs and Communications to achieve performance targets	16,000	16,000	16
Depreciation of government grants related to purchase of assets	5,349	4,868	16
Other income	160	350	
<b>Total other income</b>	<b>23,328</b>	<b>21,480</b>	

## Note 11: Operating expenses

### 11.1 Goods, materials and services

<i>In thousands of euros</i>	<b>2019</b>	<b>2018</b>
Raw materials and consumables	1,762	1,613
Services purchased for resale	594	705
Energy	1,179	1,246
Railway repair and maintenance	2,213	1,988
Real estate maintenance	730	618
Repair and maintenance of means of transport	676	356
Maintenance of telecommunications, electricity and safety systems	285	324
Other railway transport related services *	2,932	3,124
<b>Total goods, materials and services</b>	<b>10,371</b>	<b>9,974</b>

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

## 11.2 Other operating expenses

<i>In thousands of euros</i>	<b>2019</b>	<b>2018</b>
Lease and rental charges	560	1,736
Energy	319	323
Utilities	468	437
Miscellaneous office expenses	554	415
Business travel expenses	143	154
Training expenses	110	127
State and local taxes	332	456
Insurance services	176	168
Spare parts and maintenance of cars	32	55
Consulting fees	563	275
Information services	50	280
Other employee-related expenses	164	293
Environmental costs	217	423
Bad debt expense (Note 1 5)	75	0
Other expenses	65	78
<b>Total other operating expenses</b>	<b>3,828</b>	<b>5,220</b>

## 11.3 Personnel expenses

<i>In thousands of euros</i>	<b>2019</b>	<b>2018</b>
Wages and salaries	13,681	13,541
Social security tax	4,483	4,624
<b>Total personnel expenses</b>	<b>18,164</b>	<b>18,165</b>

### Number of employees

Number of employees at the beginning of the period	758	788
Number of employees at end of period	698	758
Average number of employees	725	782

## Note 12: Financial income and expenses

<i>In thousands of euros</i>	<b>2019</b>	<b>2018</b>
Interest income	83	13
Interest expense	-415	-340
incl. interest expense on loans	-260	-332
interest expense on finance lease	-155	-8
Gain/loss from foreign currency translation differences	13	-2
<b>Total financial income and expenses</b>	<b>-319</b>	<b>-329</b>

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## Note 13: Income tax

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

As at 31 December 2019, the Company's undistributed profits totaled EUR 85,051. Considering the Commercial Code's requirement to transfer at least 5% of the financial year's net profit to statutory reserve capital, it is possible for the Company to make distributions from its retained earnings as 31 December 2019 in amount up to EUR 84,606 thousand (2018: EUR 75,835 thousand). The maximum income tax liability that would arise, if all of the undistributed profits were distributed as dividends as at 31 December 2019, amounts to EUR 16,921 thousand (2018: EUR 15,167 thousand), net dividends amounts to EUR 67,685 thousand (2018: EUR 60,668 thousand)

According to the profit allocation proposal made by the Management Board, in 2019 the Company will not distribute dividends.

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## Note 14: Contingent assets, contingent liabilities and contractual commitments

### Potential liabilities arising from the tax audit:

The tax authority has neither initiated nor conducted the Company's tax audit or individual case review for the period 01.01.2019-31.12.2019. The tax authorities have the right to inspect the company's tax records for up to 5 years from the filing date of the tax return and to determine the additional amount of tax, interest and fines if errors are detected. According to the management of the company, there are no circumstances which could lead the tax authorities to impose a significant additional amount on state-owned enterprises.

### Liabilities arising from construction contracts

As at 31 December 2019, the company has entered into agreements for the years 2020 to 2022, of which the liabilities arising until the end of the agreement period total to 35.9 million euros (2018: 43.2 million euros).

### Liabilities arising from government grants

The European Union Cohesion Fund has the right to recover funds in the event of a breach of the grant agreement. As at 31.12.2019, 143 million euros had been received from such government grants (31.12.2018: 131 million euros).

### Pending court cases:

- OÜ Muldkeha filed a claim against AS Eesti Raudtee for unjust enrichment and damages in the amount of 1,221 thousand euros. The court accepted the action on 24 January 2020. The deadline for the reply is 09 March 2020. AS Eesti Raudtee does not recognize the claim and does not consider the payment probable.
- AS E.R.S. has filed two complaints against the decision of the Technical Regulatory Authority which has determined the user fee of the railway infrastructure for the 2016/2017 timetabling period and 2017/2018 timetabling period. The Court involved Eesti Raudtee as a third party, because the proceedings may determine the rights and obligations of Eesti Raudtee. To date, the Supreme Court is yet to make a ruling in this case. If the court upholds the appeal of AS ERS and overturns the decision of TJA, the TTJA will have to make a decision on the charging of the new railway infrastructure, which could potentially lead to the adjustment of AS Eesti Raudtee's revenues for previous periods. At present, its impact cannot be reliably predicted.



- At 12 November 2018, AS Eesti Raudtee filed an action with the court in respect of the partially unpaid user fee for the single rides of AS Operail locomotives over the period of three years in the amount of 6,152 thousand euros plus default interest of 244 thousand euros. At 20 November 2018, the court accepted the action for proceedings. In its response, AS Operail does not acknowledge the claim related to the fixed cost of the user fee of single locomotive rides and filed objections. AS Eesti Raudtee has negotiated a compromise settlement with AS Operail. No agreement was reached to the satisfaction of both parties. Due to the objections of AS Operail, the court may also apply a one-year limitation period for the claim arising from the contract and as a result, the claim filed in the action may be reduced. The court has not yet scheduled a hearing. The claim arising from the litigation is not recognized in the Company's statement of financial position but is a contingent asset.

## Note 15: Related party transactions

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

### Balances with related parties

*In thousands of euros*

	31 December 2019	31 December 2018
<b>Receivables</b>		
Entities related with members of the Management and Supervisory Boards	0	0
Government related railway entities	743	1,136
<b>Liabilities</b>		
Entities related with members of the Management and Supervisory Boards	1	84
Government related railway entities	2,794	2,228

### Transactions with related parties

*In thousands of euros*

	2019	2018
<b>Sales</b>		
Entities related with members of the Management and Supervisory Boards	1	3
Government related railway entities	36,559	37,600
<b>Purchases</b>		
Entities related with members of the Management and Supervisory Boards	156	165
Government related railway entities	2,918	3,067

### Remuneration and benefits to executive and senior management

	2019	2018
Remuneration and benefits	305	283

If the employer terminates the contract of a member of the Management Board prematurely without cause, the member of the Management Board will be entitled to termination benefits equal to his or her three months' remuneration. There is no provision for compensation in the statement of financial position

## Note 16: Government grants

### Government grants receivable

*In thousands of euros*

	31 December 2019	31 December 2018
Government grant receivable for the purchase of property, plant and equipment	2,013	0

### Government grants for operating expenses

*In thousands of euros*

	2019	2018
Government grant received from the state budget for operating expenses to ensure the balance of income and expenditures of the company (Note 10)	16,000	16,000

### Government grants for assets

*In thousands of euros*

	2019	2018
<b>Long - term liabilities related to government grants at the beginning of the period</b>	<b>126,652</b>	<b>101,512</b>
EU funds	102,860	99,028
domestic government grants	2,292	2,484
prepaid government grants for fixed assets	21,500	0
<b>Movements during the accounting period</b>	<b>12,363</b>	<b>30,009</b>
Increase in government grants for acquired fixed assets		
EU funds	12,288	8,509
domestic government grants	75	21,500
Accounting for liabilities acquired with government grants	<b>-5,349</b>	<b>-4,868</b>
EU funds	-5,129	-4,676
domestic government grants	-220	-192
<b>Long - term liabilities related to government grants at the end of the period</b>	<b>133,666</b>	<b>126,652</b>
EU funds (acquired fixed assets)	104,026	98,211
EU funds (prepayments received)	5,993	4,649
domestic government grants	19,814	2,292
prepaid government grants for fixed assets	3,833	21,500

The Company and the Ministry of Economic Affairs and Communication signed a finance agreement on 28 December 2015, according to which the Company received in 2019 EUR 7 million (2018: EUR 16 million), which is recorded as at liability as at 31 December 2019 (the same as at 31 December 2018) and will be recognised as revenue in the following year after the prescribed performance targets are fulfilled. On 18 December 2019 an amendment to the financing agreement was concluded, extending its validity until 31.12.2025.

The user-based performance targets have been set in the following areas: railway traffic performance based on the speed and reliability of the railway network, railway network capacity, level of safety, volume of operations, environmental safety, and consumer satisfaction. As these performance targets are not directly connected with an acquisition of property, plant and equipment, received government grants are recognised as government grants related to operating activity.



At 28 June 2018, Annex 4 to the funding contract “Investments for special purposes in 2018-2020” was concluded, on the basis of which the Company was paid EUR 21.5 million for funding its investment projects in 2018, including renovation of Tallinn-Tartu and Tapa-Narva railway lines and increasing speed to 135 km/h, as well as construction of Riisipere-Turba railway line. During 2019, the Company used 17.7 million euros of the government grants received and requested the transfer of the balance of the advance payment (3.8 million euros) to cover the investments of the following periods. As the annex of this contract laid down objectives for the Company concerning specific investments, the management estimates that the grant received qualifies as a government grant for non-current assets and based on the above, it is recognised as a government grant for non-current assets and not for operating expenses.

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

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## **Note 17: Events after the balance sheet date**

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and by now it has spread across the world, including Estonia, causing disruptions to businesses and economic activity. The Company considers this outbreak to be a non-adjusting post balance sheet event. As the situation is uncertain and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company.

On 4 March 2020 the Company signed a loan contract with European Investment Bank (EIB) in amount of 95 million euros for the implementation of investments for 2020-2025. No assets are pledged as collateral for the loan.

# Independent Auditor's Report

(Translation of the Estonian original)\*

To the Shareholder of AS Eesti Raudtee

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## Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AS Eesti Raudtee (the Company) as at 31 December 2019, 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.

We audited the Company's financial statements that comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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## Basis for opinion

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

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

## Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

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## Other information

The Management Board is responsible for the other information. The other information comprises the Statement of The Chairman of The Management Board, Management report and Corporate Governance Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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## **Auditor's responsibilities for the audit of the financial statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

AS PricewaterhouseCoopers

/signed/

Janno Hermanson  
Auditor's certificate no.570

18 March 2020

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

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

## Profit allocation proposal

The management board proposes share the Company's net profit for 2019 in the amount of EUR 8,893 thousand as following:

Increase statutory reserve capital	EUR 445 thousand
Transfer to previous periods' retained earnings	EUR 8,448 thousand
Retained earnings after profit allocation	EUR 84,606 thousand

## Signatures of the Management Board

The annual report of AS Eesti Raudtee for the year ended 31 December 2019 consists of the management report, the annual financial statements, the independent auditor's report and the loss allocation proposal.

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

Erik Laidvee  
Chairman - CEO

Andrus Kimber  
Vice-chairman - CFO

18 March 2020



## List of business activities

*In thousands of euros*

<b>Business activities</b>	<b>EMTAK code</b>	<b>2019</b>	<b>2018</b>
Infrastructure services	52219	34,041	36,743
Lease and rental services	77391	282	263
Purchased and resold energy	35141	761	888
Telecommunications services	61901	377	454
Real estate services, rental of building and premises	68201	528	554
Sale of inventories	45311	1,573	849
Total		<b>37,562</b>	<b>39,751</b>



# GRI CONTENT INDEX

The annual report of Eesti Raudtee has been prepared in accordance with the requirements of the most widely used Global Reporting Initiative (GRI) standard for sustainability reporting.

The report covers those environmental, social, responsible management and market behavior issues that are most relevant to Eesti Raudtee operations, keeping in mind the impact and stakeholder expectations (list of topics on pages 20-21).

GRI standard	Number	Disclosure	Page numbers in report and / or explanation
<b>Reporting basis (GRI 101: 2016)</b>			
<b>General Disclosures (GRI 102: 2016)</b>			
<b>Organisational profile</b>			
	102-1	Name of the organisation	2
	102-2	Activities, brands, products, and services	2, 4-5, 37-39, 42-43
	102-3	Location of headquarters	2
	102-4	Location of operations	4-5
	102-5	Ownership and legal form	4, 72
	102-6	Markets served	37-39
	102-7	Scale of the organisation	4, 11, 36
	102-8	Information on employees and other workers	62, 122 (All activities are carried out by own employees, except for subcontractors in project-based procurement. The company has no fixed-term employees, except for the members of the Management Board. Nor does it use seasonal, project-based or temporary labor. There is no information on full-time and part-time workers.)
	102-9	Supply Chain	53 As a result of the company's activities, trains must be able to move smoothly and safely on the railway. To ensure this, the company carries out the following activities itself, through subcontractors and procuring goods from suppliers: <ul style="list-style-type: none"> <li>- rail maintenance;</li> <li>- maintenance of telecommunication and security systems;</li> <li>- technical and property management;</li> <li>- electricity supply;</li> <li>- traffic management;</li> <li>- ensuring security and safety;</li> <li>- supply of materials;</li> <li>- construction and development;</li> <li>- various support functions.</li> </ul>
	102-10	Significant changes to the organization and its supply chain	Opening of Turba-Riisipere railway
	102-11	Precautionary principle or approach	31, 54
	102-12	External initiatives	51, 54, 59, 65
	102-13	Memberships of associations	5, 33
<b>Strategy</b>			
	102-14	Statement from senior decision-maker	8-9
	102-15	Key impacts, risks, and opportunities	18-19, 22-23, 28-31



<b>Ethics and Integrity</b>			
	102-16	Values, principles, standards and standards of conduct	16-17
	102-17	Identification and resolution of ethical issues	28
<b>Governance</b>			
	102-18	Governance structure	26-27 (The ultimate responsibility for social and environmental issues lies with the Management Board of AS Eesti Raudtee)
<b>Stakeholder Engagement</b>			
	102-40	List of stakeholder groups	The company's most important stakeholders are employees, customers, passengers, suppliers and subcontractors, cooperation partners and other organizations in the field, owner and public sector institutions and the wider Estonian public.
	102-41	Collective bargaining agreements	65
	102-42	The way in which interest groups are involved	Stakeholders are considered to be parties directly involved in the activity, whose activities affect the company or who are affected by the company's activities, and the public.
	102-43	Approach to stakeholder engagement	20, 32-33, 48, 52, 60-61, 63-65, 70-71 (In addition: communication with closer stakeholders takes place in the course of daily work (see GRI 102-40). The expectations of a wider range of stakeholders for the company's activities were mapped at the end of 2019 through an online survey as part of the preparation of the annual report).
	102-44	Key topics and concerns raised	21 (The expectations of different external stakeholders regarding different aspects are rather similar; in order to make more precise differences, it would be necessary to involve more stakeholders in the analysis in the future. Employees' expectations are higher in issues related to the work environment.)
<b>Reporting Practice</b>			
	102-45	Entities included in the consolidated financial statements	AS Eesti Raudtee has no additional consolidation entities.
	102-46	Defining report content and topic Boundaries	18-2 3
	102-47	List of material topics	21
	102-48	Restatements of information	No restatements.
	102-49	Changes in reporting	This is the company's first GRI-compliant report and covers a wider range of topics than previously reported.
	102-50	Reporting period	2
	102-51	Date of most recent report	Previous annual report was released 13 May 2019



GRI standard	Number	Disclosure	Page numbers in report and / or explanation
	102-52	Reporting cycle	The report is prepared annually. According to the State Assets Act, interim reports are prepared and published quarterly.
	102-53	Contact point for questions regarding the report	Monika Lilles (monika.lilles@evr.ee)
	102-54	Claims of reporting in accordance with the GRI Standards	The report complies with the standard of International Global Reporting Initiative (GRI) and is based on the basic requirements of the standard.
	102-55	GRI content index	113-122
	102-56	External Assurance	The compliance with GRI requirements are not controlled by a third party.
<b>Sustainability focus topics</b>			
<b>Quality, continuous operations, capacity, accuracy of schedules</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		42-44
	non-GRI	Performance indicators	42-44
<b>Economic Performance (GRI 201: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		36-41
	201-1	Direct economic value generated and distributed	36-41
<b>Indirect economic impact (GRI 203: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		18-19, 22-23
	203-1	Infrastructure investments and services supported	40-41
	203-2	Significant indirect economic impact	19
<b>Purchasing principles (GRI 204: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		53
	204-1	Purchases from local suppliers	53
<b>Anticorruption (GRI 205: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		27-28
	205-1	Operations assessed for risks related to corruption	As a result of an overall risk assessment covering the entire company, it is known which risks may be involved in corruption (in particular in relation to procurement).
	205-2	Communication and training about anticorruption policies and procedures	28 (The principles are accessible to all employees. All staff with procurement, decision-making and managerial responsibilities must participate in the training (17% of employees in 2019). Not separately communicated to partners.)
	205-3	Confirmed incidents of corruption and actions taken	28 (In 2019, there were no cases or procedures involving employees or subcontractors.)

GRI standard	Number	Disclosure	Page numbers in report and / or explanation
<b>Energy (GRI 302: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		55-56
	302-1	Energy consumption within the organisation	56 (Renewable energy was not consumed)
<b>Biodiversity (GRI 304: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		58
	304-1	Operational sites on protected areas and areas of high biodiversity value outside protected areas	58
<b>Emissions (GRI 305: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		55-56
	305-1	Direct (Scope 1) GHG emissions	55 (Data only for those boiler houses for which the company is obliged to measure ambient air emissions)
	305-7	Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions	NOx 0,40 tons, SOx 0,07 tons, VOC 0,04 tons, PM 0,29 tons, CO 0,40 tons (Data only for those boiler houses for which the company is obliged to measure ambient air emissions)
	non-GRI	Electrification	19, 56
<b>Effluents and Waste (GRI 306: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		56-58
	306-2	Waste by type and disposal method	57 (The company does not calculate the amount of non-hazardous waste. Hazardous waste is handed over to a waste company, there is no overview of the exact method of disposal)
	306-3	Significant spills	58 (There were no significant spills)
<b>Environmental Compliance (GRI 307: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		54
	307-1	Non-compliance with environmental laws and regulations	There were no non-compliances.
<b>Employment (GRI 401: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		62-63
	401-1	New employee hires and employee turnover	62, 118 (The company operates in one country and therefore does not keep records by smaller regions )
	non-GRI	Other indicators of the collective	62, 118
<b>Occupational Health and Safety (GRI 403: 2018)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		65-67
	403-1 kuni 403-7		65-67
	403-9	Work-related injuries, absences and days lost, fatal accidents at work	66 (There were no fatal accidents at work. One accident at work was related to a fall on the same level. The company does not measure the performance of subcontractors.)

GRI standard	Number	Disclosure	Page numbers in report and / or explanation
	non-GRI	Safety training for employees	66
<b>Training and Education (GRI 404: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		67-68
	404-1	Average hours of training per year per employee	Average number of training hours in 2019 by services: Management Board 10, Risk Management and Internal Audit Department 27, Infrastructure Service 11, Traffic Service 9, safety service 25, financial service 31, support service 30 hours.  As both men and women have equal opportunities to participate in the trainings, the company does not keep records by gender.
	404-2	Programs for upgrading employee skills and transition assistance programs	68 (There are no development programs after the termination)
	404-3	Percentage of employees receiving regular performance and career development reviews	All people who worked in the company at the beginning of the reporting year passed the performance evaluation. The function of development talks will be added from 2020 .
	non-GRI	Management development programs	68
<b>Diversity and Equal Opportunity (GRI 405: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		68-69
	405-1	Diversity of governance bodies and employees	62, 118
<b>Non-discrimination (GRI 406: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		68-69
	406-1	Incidents of discrimination and corrective actions taken	69 (No cases occurred)
<b>Local Communities (GRI 413: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		60-61, 70-71
	413-2	Operations with significant actual and potential negative impacts on local communities	60-61
	non-GRI	Complaints received from residents	61
<b>Customer Health and Safety (GRI 416: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		44-47
	416-1	Assessment of the health and safety impacts of product and service categories	Safety risks have been assessed throughout the railway infrastructure and core business
	non-GRI	Safety and security indicators	45-46
	non-GRI	Safety awareness in society	45-47
<b>Socioeconomic Compliance (GRI 419: 2016)</b>			
Management Approach (GRI 103: 2016)	103-1 to 103-3		27-28
	419-1	Non-compliance with laws and regulations in the social and economic area	28 (No non-compliances occurred)

## Table of employees

	Members of the Management Board and Management		Other office workers (excluding the board and management), engineers and so-called technical staff		Workers	
	Men	Women	Men	Women	Men	Women
Number of employees under 30	0	0	7	7	5	0
Number of employees aged 30-49	3	0	76	105	76	4
Number of employees aged 50 and over	2	1	89	207	105	11
- incl. employees 60 and older	1	0	36	85	38	7
- incl. employees in pensioner age group	0	0	23	43	21	1
Number of new employees under 30	0	0	3	5	1	0
Number of new employees aged 30-49	0	0	9	7	5	0
Number of new employees aged 50 and over	0	0	5	4	2	0
- incl. new employees 60 and older	0	0	0	0	1	0
- incl. new employees in pensioner age group	0	0	0	0	0	0
	New employees include those who were employed in 2019 and were still at work as of 01.01.2020.					
Number of employees leaving the entity under 30 years of age	men: 3; women: 0					
Number of employees leaving the entity aged 30-49	men: 17; women: 7					
Number of employees leaving the entity aged 50 and over	men: 38; women: 46					
- including the number of employees leaving the entity aged 60 and older	men: 28; women: 31					
- including number of retired employees	men: 26; women: 20					

In the case of departing employees, no account is kept by category







EESTI RAUDTEE