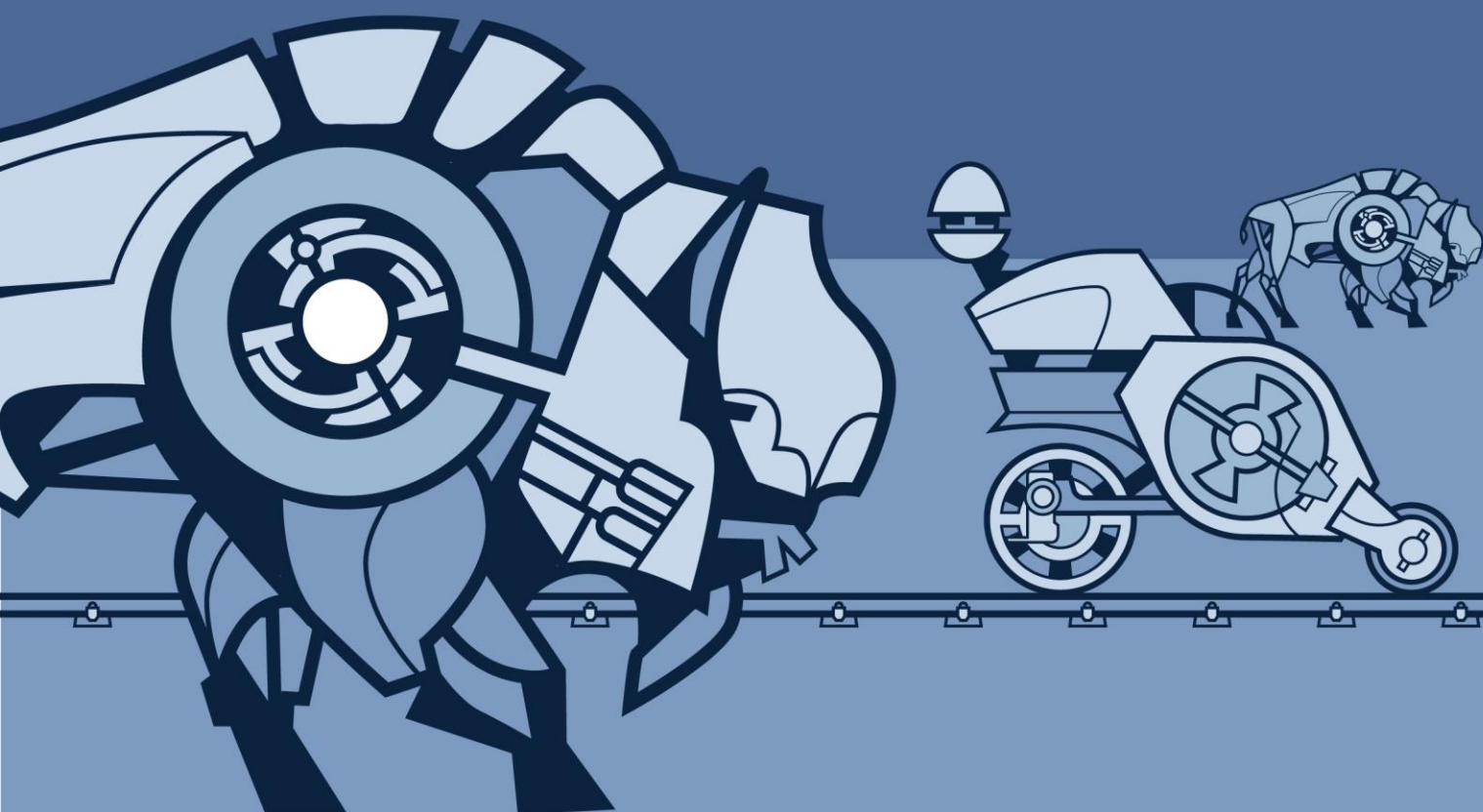




Consolidated Annual Financial Statements
for financial year ended on 31.12.2019

AS OPERAAIL



Contact details:

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End of financial year:	31.12.2019
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Area of activity:	organisation of rail transport

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Management Report

General information about the Group

The main areas of activity of AS Operail (hereinafter also referred to as the "Group") are rail transport and rolling stock rental and repairs.

AS Operail is a 100% state-owned company and operates in the area of administration of the Ministry of Economic Affairs and Communications.

Being a rail carrier of bulk and dangerous goods, the Group can be considered a source of increased danger to the environment. The Group adheres to all established rules and regulations and proactively minimises any risks to the environment.

On 31.12.2019, the Group had over 80 line and shunting locomotives. The Group's wagon fleet includes over 3500 freight wagons. The Group owns the wagons so as to service clients' freight transport in Estonia and internationally. Revenues from wagon rental and usage charges play an important role. The Group includes a rolling stock repair and maintenance unit and several rolling stock maintenance points all over Estonia. We discontinued wagon repair services in 2019 to focus on locomotive modernisation and repair services.

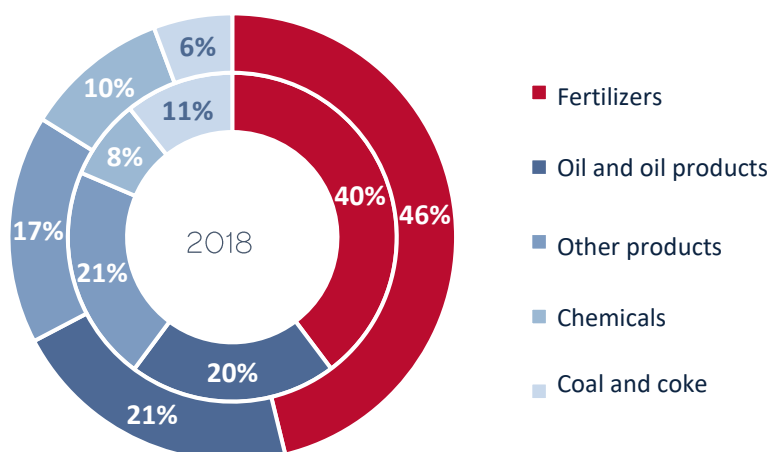
As at the end of 2019, the corporate group of AS Operail includes, in addition to the parent company, AS Operail Leasing and Finnish subsidiaries Operail Finland Oy and Operail Leasing Finland Oy. The subsidiary Operail Finland Oy was established by the Group in 2019 in order to start freight transportation on Finnish railroads. Operail Finland Oy has entered into a contract for the purchase of 9 line locomotives in Finland. The main area of activity of AS Operail Leasing and Operail Leasing Finland Oy is wagon rental, while Operail Finland Oy is mainly engaged in rail transport in Finland.

Freight transport on Estonian railroads

The freight transport volume on the Estonian public railway as a whole was 13.2 million tonnes in 2019 (2018: -2%).

The most important commodity groups included fertilizers (6.1 million tonnes; 2018: +13%), oil and oil products (2.8 million tonnes; 2018: +1%), chemicals (1.4 million tonnes; 2018: +30%) and coal and coke (0.8 million tonnes; 2018: -48%). There were no significant fluctuations in Operail's freight volumes during the reporting period.

Breakdown of goods transported on Estonian railroads in 2019 2018/19



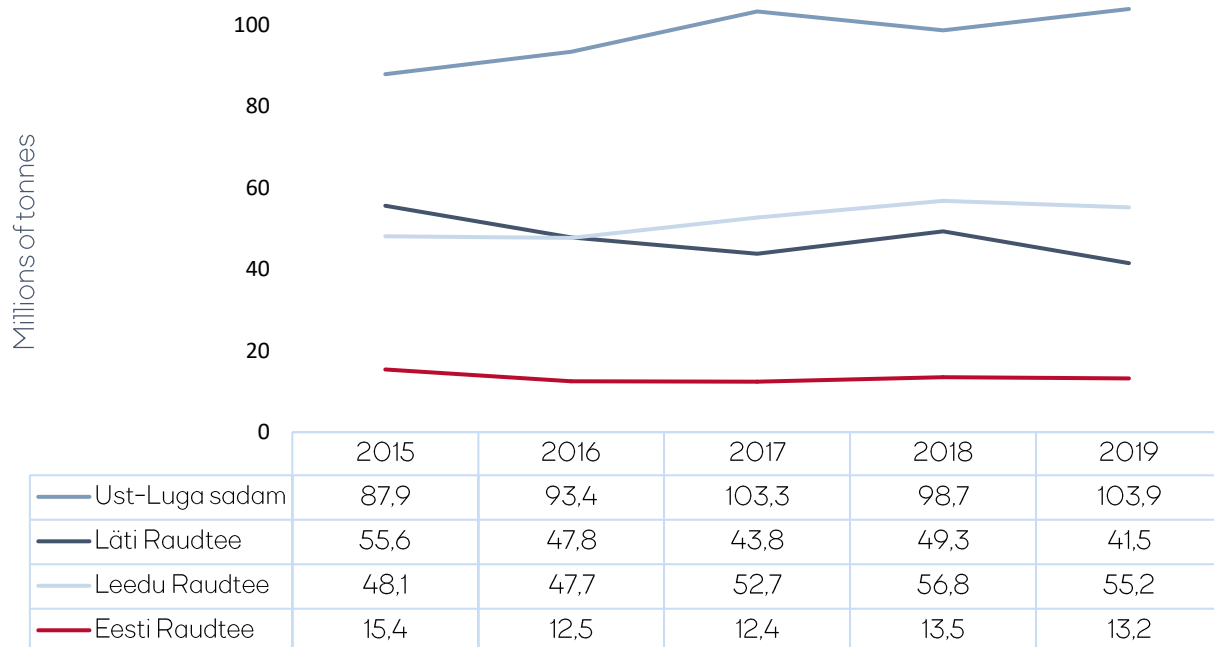
Freight volumes in other Baltic States

The freight volume of Latvian operators amounted to 41.5 million tonnes in 2019 (2018: -16%). The most important commodity groups were coal (17.6 million tonnes; 2018: -23%), mineral liquid fuels (9.4 million tonnes; 2018: -16%) and fertilizers (2.8 million tonnes; 2018: -7%).

The aggregate freight volume of Lithuanian operators was 55.2 million tonnes in 2019 (2018: -3%). The most important commodity groups were fertilizers (16.2 million tonnes; 2018: -1%), mineral liquid fuels (13.2 million tonnes; 2018: -8%) and construction products (7.4 million tonnes; 2018: +17%).

For comparison with the Baltic States, the graph below shows the freight volume of Ust-Luga, the largest port on the Baltic Sea. The freight volume of Ust-Luga was 103.9 million tonnes in 2019 (2018: +5%).

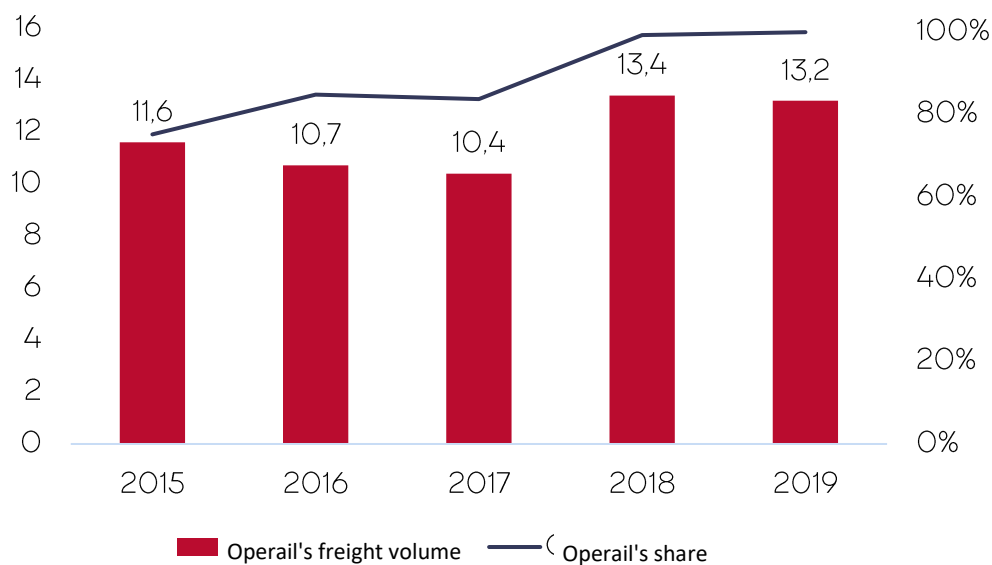
Freight volumes in the Baltic States and the port of Ust-Luga



Group's freight volume

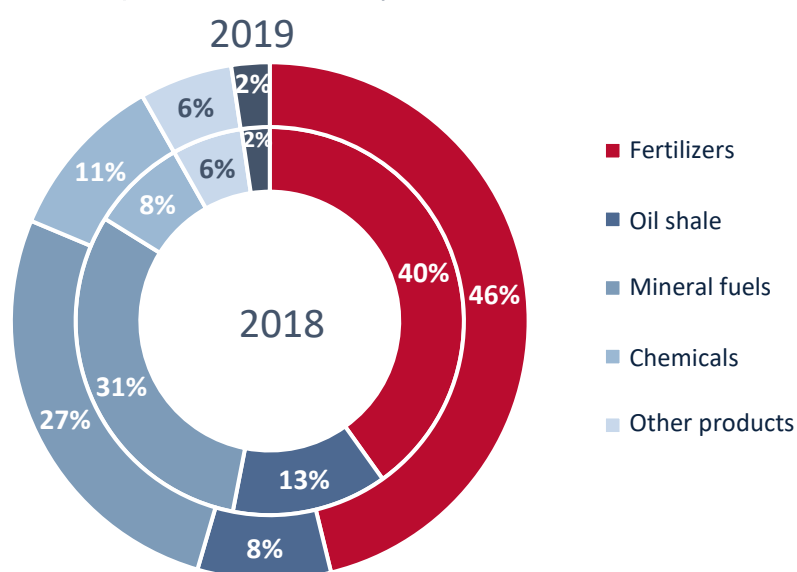
The freight volume of the Group amounted to 13.2 million tonnes in 2019 (2018: -1%). This made up 100% of the total freight carried on the infrastructure of AS Eesti Raudtee.

Operail's freight volume (millions of tonnes) and share



As in the previous year, the commodity group of fertilizers accounted for the greatest volume – 6.1 million tonnes (2018: +13%). The fertilizers are Russian exports which are transported both as liquid and bulk cargo via the ports of Sillamäe and Muuga. The next most important group in terms of freight volume was that of mineral fuels with 3.5 million tonnes (2018: -14%). Chemicals hold the third position in terms of freight volume, amounting to 1.4 million tonnes or more than in 2018 (2018: +30%).

Breakdown of goods transported by Operail in 2018/2019



The freight volume of container goods increased to 76,756 TEU in 2019 (2018: +46%). For comparison purposes, the volume of container traffic on Latvian railways increased to 66,733 TEU in 2019 (2018: +4%) and the volume of container traffic on Lithuanian railways increased to 144,862 TEU (2018: +146%).

By country, the greatest volumes of goods were transported to and from Russia: a total of 8.1 million tonnes (+13%). Other important countries included Belarus (1.6 million tonnes; -22%), Lithuania (846 thousand tonnes; +10%), Latvia (222 thousand tonnes; -32%), Ukraine (144 thousand tonnes; +35%), Kazakhstan (103 thousand tonnes; +34%) and Uzbekistan (20 thousand tonnes; -42%). Transit accounted for 71% (9.4 million tonnes) in the total freight volume, increasing by +4% year on year. The record high freight volume of transit fertilizers should be highlighted as a positive factor in the Group's freight volume.

Wagon rental market

A stabilization of demand took place on the wagon rental market in 2019, with wagon rental prices remaining at a similar level as the year before. At the end of 2019, the wagon fleet of Russia as the

largest market participant included 1.13 million wagons (70% of the market volume) and had increased by 5% compared to 2018. The cargo turnover amounted to 3,304 billion tonne/km in 2019 and remained at the same level as in 2018.

As at the end of the financial year, the Group had let out 1178 wagons owned by Operail (2018: +1%), 956 wagons owned by AS Operail Leasing (2018: +8%) and 70 wagons owned by Operail Leasing Finland Oy (2018: +100%), or a total of 2204 wagons (2018: +8%).

In 2019, the number of wagons in Operail's joint fleet decreased, and as a result, revenues dropped by -16% to 1998 thousand euros. The Group's wagons also service local transport.

Repairs

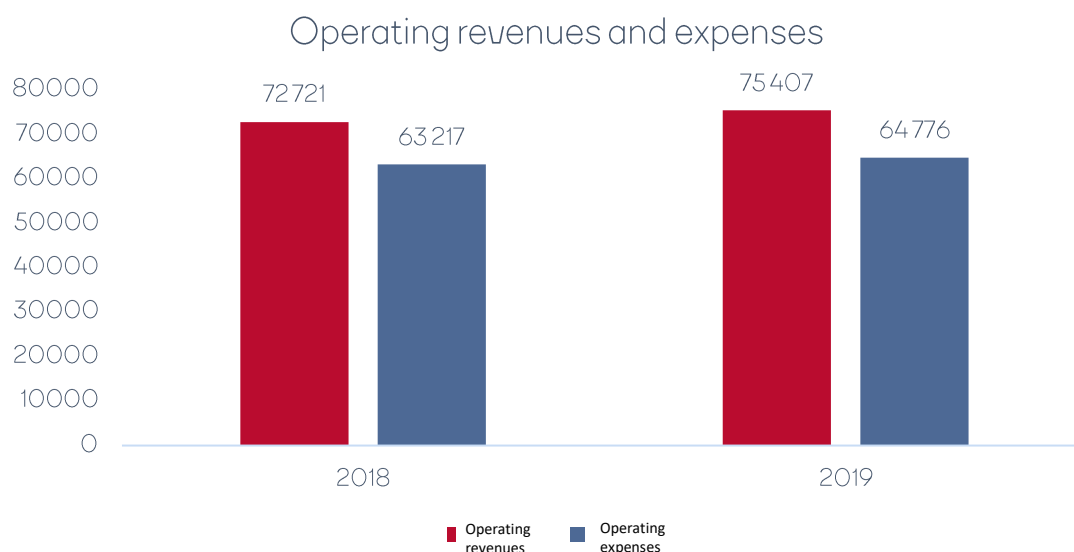
In 2019, the Group performed scheduled repairs on 188 freight wagons at Tapa Depots, incl. 141 wagons owned by Operail and 47 wagons owned by other companies. Due to economic considerations, we discontinued scheduled repair services for wagons in 2019 and directed the resources freed up to our locomotive modernisation and construction project. We also plan to increase the number of lifting and major repairs on locomotives, which will extend the service life of existing locomotives.

Financial performance

Revenues and expenses

The Group's operating revenues for the financial year 2019 totalled 75,407 thousand euros (2018: +3%). Revenues from freight transport decreased by 6% to 44,374 thousand euros. Revenues related to wagons increased and amounted to 14,913 thousand euros, growing by 3,320 thousand euros compared to 2018 (2018: +29%). Among the revenues related wagons, wagon rental revenues increased to 12,915 thousand euros (2018: +40%), while charges for use of the rental fleet dropped to 1,998 thousand euros (2018: -16%). Other operating revenues grew to 3950 thousand euros (2018: +186%), of which the bulk came from the sale of non-current assets (depreciated wagons) and inventories (scrap metal and wheel disks).

The Group's operating expenses grew to 64,776 thousand euros (2018: +2%). The increase in operating expenses was due to the increase in expenses related to usage charges for wagons in the rental fleet, labour costs and the cost price expenses of goods sold.



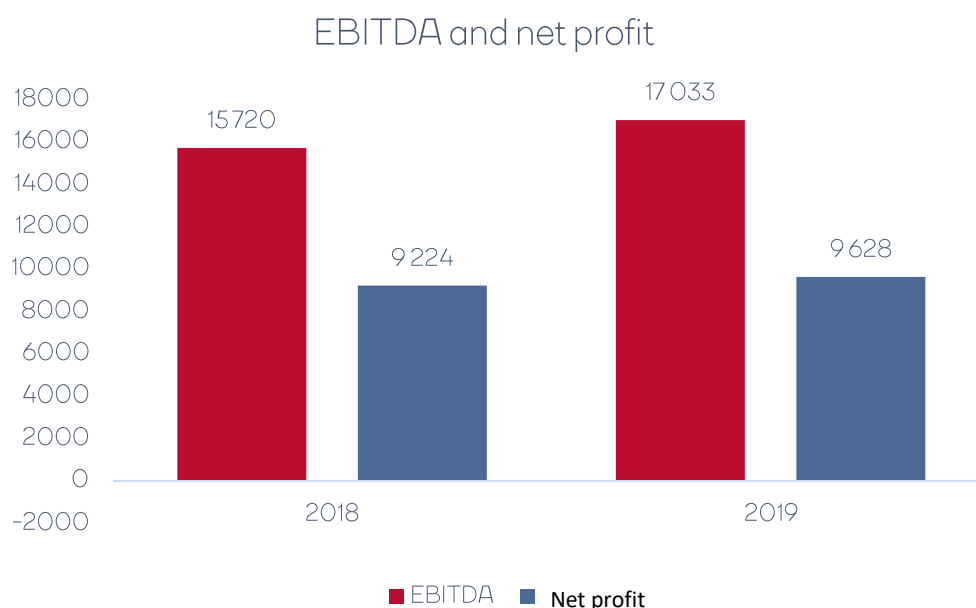
Expenditure on infrastructure usage charges fell by -14%, due to the lower freight volumes and the lower infrastructure usage charges for some segments of freight transport (2018: -10%). Usage charges were paid in the amount of 20,502 thousand euros. Fuel costs amounted to 8,985 thousand euros (2018: -5%). The drop in fuel costs was likewise due to a lower freight volume. Depreciation rose to 6402 thousand euros (2018: +5%) due to an increase in non-current assets.

Labour costs totalled 15,844 thousand euros in the financial year (2018: +12%). The Group had 678 employees as at the end of 2019 (2018: 692). The decrease in the number of employees was due to the restructuring of activities in the Repairs business unit. The average gross salary of employees rose in 2019, reaching 1425 euros a month (2018: 1317 euros).

Profitability

The Group's EBITDA was 17,033 thousand euros in the financial year (2018: +8%). The Group's operating profit amounted to 10,631 thousand euros (2018: +12%).

The Group's interest expenses increased by 75% due to a rise in the loan volume, and totalled 940 thousand euros. Income tax expenses amounted to 375 thousand euros (2018: 0 euros) and 1500 thousand euros in dividends were paid in 2019. The net profit for the financial year was 9,628 thousand euros (2018: 9,224 thousand euros).



Investments

In 2019, the Group invested 11,988 thousand euros (2018: 1,790 thousand euros), acquired assets with a right of use for 27,149 thousand euros and made an advance payment for fixed assets of 21,596 thousand euros. The main investments were prepayments made for Finnish locomotives, acquisition of wagons, modernisation of C30M and major repairs of rolling stock.

The Group's liquid assets as at the balance sheet date amounted to 4,574 thousand euros. Increasing investments and indebtedness have increased the net debt/EBITDA and net debt/equity ratios. The Group's net debt as at the end of 2019 amounted to 72,793 thousand euros (2018: 24,338 thousand euros) and the net debt/EBITDA ratio was 4.3 (2018: 1.6). The net debt/equity ratio changed from 47% to 121% over the reporting period.

The Group is exposed above all to changes in the exchange rates of the Swiss franc, US dollar and Russian rouble. To hedge currency risks, the majority of contracts are made in euros and, where possible, foreign currency receipts and disbursements are balanced. In other cases, derivatives are used (see section 2.2 for more information).

Dividend

The Group paid 1500 thousand euros in dividends in the 2019 financial year (2018: 0 euros). The payment of dividends is decided by the Group's General Meeting as represented by the Minister of Economic Affairs and Communications.

Outlook for 2020

Freight transport

The Group forecasts a freight transport volume of 13.8 million tonnes for 2020 (+5% compared to the 2019 result). The forecast for increased freight transport volume is impacted most by the launch of freight transport on the Finnish market and the increase in multimodal domestic transport (crushed granite, timber products, grain). As regards the volume of transit, we predict a somewhat lower level in 2020 in comparison with the previous year; however, we foresee a moderate growth in the product group of fertilizers. As for containerised transport, we also forecast an improvement in transport volumes.

Wagon rental market

Supply has increased and market prices have stabilised on the wagon rental market. The Group plans to reduce investments in the wagon fleet compared to previous years. With regard to wagon rental revenues, the Group forecasts growth for 2020, but wagons will make fewer sorties from the joint fleet and income will be lower in 2020 than in the previous year.

Repairs

The Group does not plan to continue providing wagon repair services in 2020, and will focus on locomotive modernisation and repair services.

Report on Good Corporate Governance

General Meeting

During the 2019 financial year, the Republic of Estonia was the sole shareholder of AS Operail and thus there is no need to address equal treatment of shareholders as one of the principles of GCG in this report.

On 15.05.2019, the Republic of Estonia as the sole shareholder of AS Operail, under law represented by the current Minister of Economic Affairs and Communications Taavi Aas, passed the resolution of the Annual General Meeting approving the annual financial statements of AS Operail for 2019 and deciding on profit distribution. The net profit of AS Operail for 2018 of 9,224,000 euros was distributed as follows: 1,500,000 euros to be paid as dividends and 7,724,000 euros to be included in retained earnings.

By the same resolution, the sole shareholder designated statutory auditors Tiit Raimla (licence No. 287) and Janno Hermanson (licence No. 570) from the audit and consulting firm PricewaterhouseCoopers as the auditors of the annual financial statements of AS Operail for years 2019–2021.

In addition, the sole shareholder gave its consent to the Management Board to acquire 9999 shares with a nominal value of 0.25 euros/share in the Finnish company WagonPro Holding Oy¹ (in which 1 share is held by AS Operail) from the subsidiary AS Operail Leasing and to establish a new company in Finland with a share capital and other conditions as provided for in the legislation of Finland. The purpose of the company to be established is to start carrying out the activities set out in the business plan developed by the Management Board in order to generate revenues.

On 21.11.2019, the sole shareholder passed resolution No. 1.1–5/19–030 removing Ahti Kuningas from the Supervisory Board of AS Operail and electing Indrek Gailan, based on the written consent of the latter, as a member of the Supervisory Board for a term of 3 years.

Supervisory Board

The Supervisory Board of AS Operail consisted of 4 members until 20.01.2020 (Peeter Kadarik was removed at his own request on 20.01.2020). According to section 81(2) of the State Assets Act and article 5.5.3 of the Articles of Association of AS Operail, the Minister of Economic Affairs and Communications appoints half of the members of the Supervisory Board (2) himself and half of the members (2) on the proposal of the Minister of Finance. The Chairman of the Supervisory Board, who

¹ By the moment of approval of the annual financial statements, the name has been changed to Operail Leasing Finland Oy.

organises the work of the Supervisory Board, is elected by the Supervisory Board from among the members of the Supervisory Board elected by the General Meeting (article 5.5.11 of the Articles of Association).

In 2019, the following persons served on the Supervisory Board of AS Operail:

- 1) Kuldar Leis from 10.11.2017, as the Chairman of the Supervisory Board from 22.11.2017;
- 2) Madis Ermo from 22.05.2017;
- 3) Peeter Kadarik from 22.05.2017;
- 4) Ahti Kuningas from 22.05.2017 to 21.11.2019;
- 5) Indrek Gailan from 21.11.2019.

Kuldar Leis chaired the Supervisory Board in 2019.

Pursuant to section 80 of the State Assets Act, a person can be elected as a member of the Supervisory Board if he or she possesses the knowledge and experience required to perform the duties of a Supervisory Board member, taking into account the area of activity and finances of the company, and is capable of acting with the degree of care expected of him or her and in accordance with the requirements of the office, taking into account the aims and interests of the company and the need to ensure effective protection of the interests of the state as the shareholder.

The powers of the Supervisory Board are set out in the company's Articles of Association. The Supervisory Board of AS Operail supervises the activities of the Management Board, participates in the planning and management of the Group's activities and decides on transactions outside the scope of day-to-day business activities. The Supervisory Board acts independently and in the interests of the Group and the shareholder.

The main form of work of the Supervisory Board is a meeting. In 2019, 12 meetings of the Supervisory Board were held and 17 resolutions were adopted without convening a meeting. The Supervisory Board adopted a total of 72 resolutions in 2019. The Management Board is required to inform the Supervisory Board of all relevant circumstances and transactions not exceeding 250,000 euros and to request the consent of the Supervisory Board to enter into transactions with a one-time or annual cost exceeding 250,000 euros.

The agenda and materials of Supervisory Board meetings are sent to the members of the Supervisory Board at least 7 business days before the meeting or at such other time agreed with the members of the Supervisory Board that gives them enough time to form their positions on the issues to be decided at the meeting.

Members of the Supervisory Board are required to avoid any conflicts of interest in their activities, not use any business offers made to the company for their personal gain, and base their activities on the interests of the Group and the Republic of Estonia. Members of the Supervisory Board are required to strictly adhere to the non-compete obligation and not engage in business activities in the same field of activity as the company.

The Supervisory Board has set up an Audit Committee from 20.02.2013. The function of the 3-member Audit Committee established by the Supervisory Board is to advise the Supervisory Board on matters related to supervision, including monitoring and analysing the processing of financial information, the effectiveness of risk management and internal control, the annual financial statement

and audit process, the independence of the statutory auditor, and the compliance of operations with requirements.

Erik Štarkov (chairman), Kuldar Leis and Ahti Kuningas were members of the Audit Committee in 2019. Indrek Gailan replaced Ahti Kuningas after the removal of the latter from the Supervisory Board.

The sole shareholder has set the remuneration of the members of the Supervisory Board and the Chairman of the Supervisory Board as proposed by the Nomination Committee. According to the remuneration procedure, additional remuneration is paid to the members of the Supervisory Board who are members of the Audit Committee for attending the meetings of the Committee. The remuneration of the chairman of the Audit Committee is higher than the remuneration of the members of the Committee.

Management Board

The Management Board of AS Operail represents the Company and manages the daily economic activities of the Company independently and in accordance with the requirements arising from the legislation and the Articles of Association. The Management Board may adopt all decisions related to the activities of the Company and independently perform all transactions that are not within the powers of the General Meeting or the Supervisory Board by virtue of law or the Articles of Association. In the financial year, the Management Board of AS Operail consisted of two members, whose rights, obligations and liability are set out in the agreements entered into with the members of the Management Board.

On 02.12.2016, the Management Board approved the areas of responsibility of the Management Board by decision No. 1-2.3/63 as follows:

- 1) Chairman of the Management Board Raul Toomsalu – general administration and public relations of the entire Group, the Freight Transport and Wagons business units and the Personnel and Marketing Department, as well as general administration of the Repairs business unit and the Safety, Quality and Technology Department;
- 2) Member of the Management Board Paul Priit Lukka – substituting for the Chairman of the Management Board, financial management of the Group, general management of the IT and Administration Department.

AS Operail confirms that it has complied with section 2.2.2 of the GCG.

Subsidiaries

AS Operail Leasing

The members of the Management Board and the Chairman of the Supervisory Board Kuldar Leis are members of the Supervisory Board of AS Operail Leasing, which is part of the same group as the Company. Raul Toomsalu is the Chairman of the Supervisory Board of AS Operail Leasing. Priit Meos and Tuuli Mizer were members of the Management Board of AS Operail Leasing in the financial year. The company has 25,000 shares with a nominal value of 1 euro each, all of which are held by AS Operail.

Operail Leasing Finland Oy

In the financial year, the Finnish subsidiary Operail Leasing Finland Oy, established on 10.05.2017, started active economic activities, entering into contracts for purchase of open wagons for wood chips, a lease framework agreement and annexes thereto, and two wagon leases with Finnish clients. A total of 70 open wagons for wood chips were acquired (through the lessor) and let out to two clients. Under Finnish law, the subsidiary has a Management Board consisting of a regular member (Priit Meos) and an alternate member (Tuuli Mizer).

The company has 10,000 shares with a nominal value of 0.25 euro each, all of which are held by AS Operail.

Operail Finland Oy

In the financial year, a new subsidiary was established in Finland under the business name Operail Finland Oy. Paul Priit Lukka (Chairman), Raul Toomsalu and Ilkka Aimo Jalmari Seppänen are the members of the Management Board of the subsidiary. The latter is also the CEO. The subsidiary implements the business plan developed by the Management Board of the Company and approved by the Supervisory Board, and invests accordingly. The provision of services is scheduled to be started in the second half of 2020.

The company has 10,000 shares with a nominal value of 0.25 euro each, all of which are held by AS Operail.

Remuneration and benefits of the members of the Management Board of the Company are set out in the agreements entered into with the members of the Management Board, which have been discussed and approved by the Supervisory Board. Severance pay is paid to a member of the Management Board only if he or she is removed by the Supervisory Board before the end of his or her term of office, and the severance pay may not exceed the member's three months' remuneration. A member of the Management Board is not paid severance pay if he or she is removed from the Management Board for a good reason, e.g. if he or she has violated the law, the Articles of Association or the agreement of the member of the Management Board or failed to perform his or her duties.

In determining the additional remuneration for the members of the Management Board, the Supervisory Board based its decision on the Company's financial indicators and considered the performance of the members of the Management Board and their personal contribution to achieving the financial and operational goals set by the shareholder. The total amount of additional remuneration paid during the financial year could not exceed four months' remuneration paid to the member of the Management Board.

By decision No. 1-2-2/16 of the Supervisory Board of 21.02.2019, Raul Toomsalu and Paul Priit Lukka as members of the Management Board were paid additional remuneration in the amount of 4 months' average remuneration (according to the data of the 2019 financial year). Pursuant to article 5.5.6 of the Articles of Association of AS Operail, the Supervisory Board decides on the entry into and the terms and conditions of transactions with the members of the Management Board and on the conduct of legal disputes with the members of the Management Board. The Supervisory Board appoints a representative of the Company for the entry into the transactions and the conduct of the legal disputes. In 2019, there were no transactions between a member of the Management Board or a

person close to or related to him or her on the one side and the Company on the other side, except for intra-group transactions.

The members of the Management Board do not operate in the same field of activity as the Company or perform other duties in addition to performing the duties of a member of the Management Board in contravention of section 2.3.3 of the GCG.

The members of the Management Board of the Company do not demand or accept from third parties money or any other benefits for personal purposes in connection with their work or grant to third parties any unlawful or unreasonable advantages on behalf of the Company. To ensure this, the Management Board of the Company approved the guidelines for the prevention of corruption and the procedure for declaring economic interests (updated version) by decision No. 1-2.3/43 of 09.07.2018.

Publication of information

AS Operail publishes information on the composition of the shareholder and the Supervisory Board and the composition of the Management Board on its website. In addition, the Company's Articles of Association, annual financial statements and information about the auditor are published on the website.

Financial reporting

AS Operail prepares financial statements in accordance with the international financial reporting standards in force in the European Union.

Consolidated Annual Financial Statements

Consolidated Statement of Financial Position

<i>in thousands of euros</i>	Note	31.12.2019	31.12.2018
ASSETS			
Non-current assets			
Prepayments for non-current assets		21,596	0
Property, plant and equipment	3	30,443	73,312
Right-of-use assets	3.16	76,294	0
Intangible assets	3	176	28
Total non-current assets		128,508	73,340
Current assets			
Inventories	4	4,019	4,716
Trade receivables	5	4,907	4,030

Other receivables	5	3,177	1,645
Cash and cash equivalents	6	4,574	15,936
Total current assets		16,677	26,326
TOTAL ASSETS		145,185	99,666
EQUITY AND LIABILITIES			
Equity			
Share capital	7	2,556	2,556
Share premium		17,256	17,256
Legal reserve	7	256	256
Other reserves		1	0
Retained earnings		30,685	22,960
Profit for financial year		9,628	9,224
Total equity		60,382	52,253
Non-current liabilities			
Borrowings	8	64,859	35,545
Provisions	9	688	597
Total non-current liabilities		65,548	36,141
Current liabilities			
Trade payables and other current liabilities	10	6,726	6,503
Borrowings	8	12,488	4,729
Provisions	9	42	40
Total current liabilities		19,256	11,272
TOTAL LIABILITIES		84,803	47,414
TOTAL EQUITY AND LIABILITIES		145,185	99,666

The Notes presented on pages 17-52 form inseparable parts of the Annual Financial Statements.

Consolidated Statement of Comprehensive Income

<i>in thousands of euros</i>	Note	2019	2018
OPERATING REVENUES			
Revenue from client contracts	11	71,457	71,342
Other operating revenue	11	3,950	1,379
Total operating revenues		75,407	72,721
OPERATING EXPENSES			
Goods, raw materials and services	12	37,831	38,514
Other operating expenses	12	4,413	4,350
Labour costs	13	15,844	14,172
Depreciation and impairment of non-current assets	3	6,402	6,085

Other operating expenses		286	96
Total operating expenses		64,776	63,217
OPERATING PROFIT (- LOSS)		10,631	9,504
Financial income and expenses	14	-628	-280
PROFIT (- LOSS) BEFORE INCOME TAX		10,003	9,224
Income tax on dividends		375	0
PROFIT (- LOSS) FOR FINANCIAL YEAR		9,628	9,224
TOTAL COMPREHENSIVE INCOME (- LOSS) FOR FINANCIAL YEAR		9,628	9,224

The Notes presented on pages 17-52 form inseparable parts of the Annual Financial Statements.

Consolidated Statement of Changes in Equity

<i>in thousands of euros</i>	Note	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
Balance on 31.12.2017	7	2,556	17,256	256		22,960	43,028
Total comprehensive income for reporting period		0	0	0	0	9,224	9,224
Balance on 31.12.2018	7	2,556	17,256	256		32,185	52,253
Total comprehensive income for reporting period		0	0	0	0	9,628	9,628
Other reserves		0	0	0	1	0	1

Dividends paid		0	0	0	0	-1,500	-1,500
Balance on 31.12.2019	7	2,556	17,256	256	1	40,313	60,382

Further information about equity is disclosed in Note 7.

The Notes presented on pages 17-52 form inseparable parts of the Annual Financial Statements.

Consolidated Statement of Cash Flows

in thousands of euros

	Note	2019	2018
Cash flow from operating activities			
Net profit		9,628	9,224
Adjustments			
Depreciation and impairment of non-current assets	3	6,402	6,085
Financial income/expenses	14	628	411
Income tax on dividends paid	15	375	0
Profit (loss) on sale of non-current assets	11	-1,150	-1,229
Adjustment of reserves		198	-5
Other adjustments		-631	0
Total adjustments		5,822	5,262
Changes in receivables and prepayments related to operating activities		-2,410	4,452
Change in inventories	4	701	252
Change in payables and prepayments related to operating activities	10	203	-3,574
Interest received		151	29
Total cash flow from operating activities		14,095	15,645
Cash flow from investing activities			
Prepayments for non-current assets		-21,565	0
Paid upon acquisition of property, plant and equipment and intangible assets		-23,610	-26,739
Proceeds from sale of property, plant and equipment and intangible assets		1,181	1,192
Total cash flow from investing activities		-43,994	-25,547
Cash flow from financing activities			
Proceeds from sale and leaseback transactions	8	0	14,716
Borrowings	8	17,109	0
Overdrafts received	8	7,389	0
Finance lease principal repayments	16	-3,312	-2,019
Dividends paid		-1,500	0
Income tax on dividends paid		-375	0
Interest paid		-898	-547
Total cash flow from financing activities		18,414	12,151
Total cash flow		-11,484	2,249
Cash and cash equivalents at the beginning of period	2.6	15,936	13,589
Change in cash and cash equivalents		-11,485	2,249

Effect of changes in exchange rates		123	98
Cash and cash equivalents at the end of period	2.6	4,574	15,936

The Notes presented on pages 17-52 form inseparable parts of the Annual Financial Statements.

Notes to Consolidated Annual Financial Statements

General information

AS Operail is a company established on 14.01.2009, with its registered address at Metalli 3, Tallinn. The principal activities of the Group are the organisation of rail transport and the rental, repair and maintenance of railway vehicles.

As of June 2017, the Group includes an Estonian subsidiary of AS Operail, AS Operail Leasing, and a Finnish subsidiary, Operail Leasing Finland Oy; in July 2019, another Finnish subsidiary, Operail Finland Oy, was established.

The annual financial statements for the financial year that ended on 31.12.2019 were signed by the Management Board on 23.03.2020. According to the Commercial Code the annual financial statements prepared by the Management Board and approved by the Supervisory Board will have to be approved by the general meeting of shareholders. The general meeting of shareholders has the right to make amendments to the annual financial statements.

Note 1. Accounting policies and procedures

1.1 Accounting policies and measurement bases

The consolidated annual financial statements of the Group for 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter referred to as the 'IFRS EU').

The consolidated annual financial statements have been prepared using the acquisition cost principle, except for derivatives, investment properties and certain other financial investments, which are stated at fair value.

The consolidated annual financial statements are presented in euros (rounded to the nearest thousand), which is the functional and presentation currency of the Group.

A) Changes in accounting policies and disclosures

The accounting policies have been applied consistently to all periods presented in these financial statements, except for the following new and/or revised IFRSs that have been applied as of 1 January 2019:

IFRS 16 "Leases"

The Group applied IFRS 16 "Leases" retrospectively as of 1 January 2019, but has not restated the reference data for 2018, as permitted by certain transition rules of the standard. Therefore, the comparative data for 2018 are presented in accordance with the previously valid IAS 17 and related

interpretations. The cumulative effect of the initial application of this standard is recognised as an adjustment to the opening balance of retained earnings at the date of initial application.

On initial application, the Group recognised right-of-use assets for leases that had previously been classified as operating leases in accordance with IAS 17. The Group measured the lease liability at the present value of lease payments, which were discounted with the lessee's alternative borrowing rate as at the date of initial application, i.e. 1 January 2019. On initial application, the Group used the following weighted average values of the lessee's alternative borrowing rate: 1.346% for vehicle leases and 1.85% for office space leases.

Note 1 (continued)

As a practical expedient, the Group has decided not to reassess whether or not a contract is a lease or contains a lease relationship at the date of initial application. Instead, the Group has relied on its previous assessments about the contracts that were entered into before the transition date, applying the requirements of IAS 17 "Leases" and IFRIC 4 "Determining Whether an Arrangement Contains a Lease".

On initial application of IFRS 16, the Group used the following simplifications permitted by the standard for leases formerly classified as operating leases:

- use of a single discount rate for leases with similar characteristics;
- the lessee may rely on its assessment of whether leases are onerous, applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of initial application as an alternative to performing an impairment review. If the lessee chooses this practical expedient, the lessee has to adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application;
- non-application of the requirements of IFRS 16 to leases for which the lease term will end within 12 months of the date of initial application;
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- using hindsight, e.g. when determining the lease term if the contract contains options to extend or terminate 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 are the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17. For those leases, the lessee accounts for the right-of-use asset and the lease liability applying this standard from the date of initial application.

Lease liabilities recognised in the consolidated statement of financial position at initial application, are set out below.

<i>in thousands of euros</i>	EUR
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Minimum amounts of operating lease payments to be made under non-terminable leases as at 31 December 2018 (Note 16).	1,046
Discounting, using the lessee's alternative interest rate at the date of initial application, 1.346%-1.85%	729
Added: finance lease liabilities recognised on 31 December 2018 (Note 8)	40,274
Total amount of lease liabilities recognised in the statement of financial position at the date of initial application on 1 January 2019	41,003

Note 1 (continued)**Measurement of right-of-use assets on initial application**

As at the date of initial application, the Group has measured right-of-use assets at an amount equal to the lease liability, adjusted by the amount of prepaid or accrued lease payments in the amount of 729 thousand euros relating to the lease and recognised in the statement of financial position on 31 December 2018.

<i>in thousands of euros</i>	EUR
Right-of-use assets – increase (Note 3)	729
Lease liability – increase	729
Net effect on retained earnings (loss) as at 1 January 2019	0

Due to the above, the Group's liabilities and assets increased by 729 thousand euros on 1 January 2019.

Amendment to IFRS 9 Prepayment Features with Negative Compensation

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. Management estimates that the amendment has no significant impact on the Group's financial statements. Management has assessed the impact of the standard and concluded that the entry into force of the standard will not affect the Group's financial statements.

B) Standards issued but not yet effective or prematurely applied
Conceptual Framework of IFRS

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. According to the Group's management, there will be no significant impact on the financial statements.

Note 1 (continued)**Amendments to IFRS 3 Business Combinations**

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These amendments have not yet been endorsed by the EU.

The Group estimates that there will be no significant impact on the financial statements.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material'

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the definition of 'material' and how it should be applied. The new definition states that, 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence 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'. In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of material is consistent across all IFRS Standards.

According to the Group's management, there will be no significant impact on the financial statements.

The IASB has issued the Annual Improvements to IFRS Standards 2015-2017 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These amendments have not yet been endorsed by the EU. Management has assessed the impact of the standard and concluded that the entry into force of the standard will not significantly affect the Group's financial statements.

1.2 Significant accounting estimates

The preparation of consolidated annual financial statements in conformity with International Financial Reporting Standards requires management to make assumptions, estimates and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities and revenues and expenses. Estimates and underlying assumptions are based on historical experience and a number of other facts that are believed to be relevant under the circumstances and form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily available from other sources. The actual results may differ from the estimates.

Note 1 (continued)

The estimates and underlying assumptions are reviewed periodically. The effect of a change in an accounting estimate is recognised in the period of the change and any future periods affected by the change.

The following are key management estimates that may have an impact on the financial statements:

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

Management has assessed the useful lives of property, plant and equipment based on historical experience and considering the intensity of asset use and future outlook. The service lives of the components of the main non-current assets of the Group (locomotives, locomotive engines, wagons and wheelsets) range from 7 to 48 years. The results of assessment are reported in Note 3.

b) Determining the recoverable amounts of non-current assets

In the event of indications of impairment, the Group performs tests of the recoverable amount of non-current assets and, if necessary, writes down non-current assets. The recoverable amounts of non-current assets are tested using management's estimates of cash flows (cash flows from the use or sale of assets, cash flows required for the maintenance and use of assets). In the opinion of the Management Board, there were no indications of impairment of assets during the reporting period, and thus there is no need to carry out an asset value test or write down non-current assets.

c) Doubtful receivables

Accounts receivable are measured on the balance sheet at the probable amounts to be received. Accounts receivable from each client are assessed separately, considering the information known about the solvency of the client.

1.3 Recognition of foreign currency transactions

Other currencies are also used in settlements – mainly the Russian rouble, the US dollar and the Swiss franc.

Transactions denominated in foreign currencies are recognised using the official exchange rates quoted by the European Central Bank at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on 31.12.2019 have been restated in euros using the official exchange rates quoted by the European Central Bank as at the balance sheet date. Gains and losses on foreign currency transactions are recognised as the revenues and expenses for the period in question in the statement of comprehensive income.

1.4 Property, plant and equipment

Property, plant and equipment are tangible assets that are used for the provision of services, leasing or administrative purposes and that are used for a period longer than one year.

Property, plant and equipment are stated at the acquisition cost, which consists of the purchase price, non-refundable taxes and other expenses directly attributable to the commissioning of the assets. Depreciation and impairment amounts have been deducted from the acquisition cost.

Note 1 (continued)

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

- land, buildings and structures – land, buildings, structures, railways;
- machinery and equipment – rolling stock, cars, computers, other equipment;
- other fittings, fixtures and equipment – tools, office equipment, furniture;
- construction in progress.

Significant components of an item of property, plant and equipment with different useful lives are accounted for as separate items. Expenditure on the completion of existing and construction of new items of property, plant and equipment recognised in the Group's accounting is considered to be construction in progress until the acceptance of the items.

Expenditure on improvements to property, plant and equipment that can be measured reliably and that contributes to the generation of revenue in subsequent periods is capitalised. The acquisition cost of an asset is increased by the expenditure related to improvement, or the improvement is recognised as a separate asset. If necessary, the useful life of the asset is changed. If the production of an item of property, plant and equipment is financed by a loan or other debt instrument, the related borrowing costs are capitalised in the acquisition cost of the item being produced.

Useful lives of non-current assets

Non-current assets are depreciated using the linear method. Depreciation is calculated based on the useful lives of non-current assets. The useful lives of non-current assets are as follows:

Groups of non-current assets	Years
Buildings and structures	
Buildings	15–50
Railways	10–50
Structures	5–40
Machinery and equipment	
Machinery and equipment	3–40
Cars	4–12
Other fittings, fixtures and equipment	
Office and computing equipment, fittings, fixtures and tools	3–20

Land is not depreciated. Improvements to non-current assets are depreciated at the same rate as non-current assets of the same class. Depreciation methods, useful lives and residual values of non-current assets are reviewed annually.

The useful lives of property, plant and equipment are reviewed at least at the end of each financial year in the course of the annual stock-taking of non-current assets and, if necessary, the useful lives of non-current assets are adjusted prospectively. If the estimated useful life of an asset differs materially from that established, the remaining useful life of the asset is changed, resulting in a change in the depreciation of the asset in subsequent periods.

Note 1 (continued)**1.5 Inventories**

Inventories are stated at the acquisition cost, which comprises all costs of purchase and other direct costs without which the inventories would not be in their present location and condition. Inventories are accounted for using the weighted average cost method. Inventories are recognised on the balance sheet at the lower of their acquisition cost and net realisable value. The net realisable value is the selling price less costs to sell.

1.6 Cash and cash equivalents

Cash in hand, balances of current accounts (except overdraft) and term deposits of up to three months are recognised as cash and cash equivalents on the balance sheet under 'Cash' and in the statement of cash flows. Overdraft is recognised on the balance sheet under short-term borrowings. Cash and cash equivalents are stated at the adjusted acquisition cost.

1.7 Financial instruments**Financial assets**

The Group classifies financial assets into the following measurement categories:

- those to be measured at fair value (with changes either through comprehensive income or through profit or loss);
- those to be measured at amortised acquisition cost.

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

Recognition and derecognition

Purchases and sales of financial assets under normal market conditions are recognised on the trade date, which is the date when the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to the cash flows from the financial asset expire or are transferred and the Group substantially transfers all the risks and rewards of ownership.

Measurement

A financial asset is initially recognised at its fair value (unless it is a trade receivable that does not have a material financing component and is initially measured at the transaction price) plus, in the case of a financial asset not recognised at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing financial assets and the contractual cash flows of the financial assets.

Note 1 (continued)

Assets that are held for collection of contractual cash flows and whose cash flows solely represent payments of principal and interest on outstanding principal are measured at amortised acquisition cost, using the effective interest method. The amortised acquisition cost is reduced by impairment losses.

Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Gains or losses arising on derecognition are recognised in profit or loss.

Financial liabilities

All financial liabilities (trade payables, loans received, accruals and other payables) are initially recognised at fair value, which includes transaction fees. Subsequently, financial liabilities are measured at amortised acquisition cost using the internal interest method.

The amortised acquisition cost of current financial liabilities is generally equal to their nominal value and therefore current financial liabilities are recognised on the balance sheet in the amounts payable. The amortised acquisition cost of non-current financial liabilities is calculated using the internal interest rate method.

Non-current liabilities are liabilities with a maturity of more than one year after the balance sheet date. Other liabilities are recognised as current liabilities. Trade payables are recognised at acquisition cost. Accruals are liabilities calculated on an accrual basis on the basis of a contract or other source document, which will be paid in the next period.

1.8 Impairment of assets**Financial assets**

The impairment loss model is applied to financial assets carried at amortised acquisition cost. Financial assets carried at amortised acquisition cost consist of trade receivables, cash and cash equivalents. Expected credit losses (ECL) are probability-weighted estimated credit losses.

Expected credit losses are measured based on:

- unbiased and probability-weighted amounts, determined on the basis of a number of possible outcomes;
- time value of money; and
- reasonable and justified information on past events, current conditions and forecasts of future economic conditions, available at the end of the reporting period without excessive cost or effort.

Note 1 (continued)

The Group measures impairment as follows:

- for trade receivables – at an amount equal to lifetime ECLs;
- for cash and cash equivalents that are determined to have a low credit risk during the reporting period (management considers 'low credit risk' to be an investment grade credit rating from at least one major rating agency) – at an amount equal to 12-month ECLs;
- for all other financial assets at an amount of 12-month ECLs, if the credit risk (i.e. the risk of default occurring over the expected life of the financial asset) has not increased significantly since initial recognition; if the risk has increased significantly, the credit loss is measured at an amount equal to lifetime ECLs.

Impairment of non-financial assets

The existence of circumstances indicating a possible impairment of the assets is assessed. Impairment can be assessed either for an individual asset or for a group of assets (a cash-generating unit). If such circumstances exist, the recoverable amount of the asset is estimated and compared with the value recognised in the statement of financial position. An impairment loss is recognised for the amount by which the asset's value exceeds its recoverable amount. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value in use.

To assess the extent of impairment, the recoverable amount is assessed either for an individual asset or for the smallest possible groups of assets for which there are identifiable cash flows. The impairment of assets is recognised as an expense in the reporting period. For assets previously written down to their recoverable amount, an assessment is made at each subsequent reporting date as to whether it is probable that the asset's recoverable amount has meanwhile increased. Reversals of write-downs to recoverable value are recognised in the annual income statement as a reduction of the impairment loss.

For non-current assets, past write-downs are reversed if there is any indication that the asset is no longer impaired and there has been a change in the estimates used to determine the asset's recoverable amount.

An earlier write-down is reversed to a maximum of the residual value that would have accrued on the asset if the write-down had not been made, taking into account normal depreciation or amortisation.

1.9 Revenue recognition

Revenues from client contracts are recognised in accordance with IFRS 15, which is applied to revenues earned from a client contract regardless of the type of revenue transaction or the industry. Sales revenue is included in transaction prices. The transaction price is the total consideration which the Company is entitled to receive in exchange for delivery of promised goods or services to the client, excluding any amounts collected on behalf of third parties. The Group recognises sales revenue when it transfers control of a good or service to a client. Rental revenues from rolling stock and other assets are recognised on a straight-line basis over the lease term.

Note 1 (continued)

Revenues from the sales of services are recorded after the provision of the services. Upon arrival of goods, the revenue is recorded on the day of delivery of the goods at the destination station. When goods are sent, the revenue is recorded on the day of acceptance of the goods for carriage at the station of departure. Contract fees received as prepayments are recognised as revenue periodically during the financial year.

Interest income is calculated on an accrual basis, unless receipt is unlikely.

1.10 Short-term employee benefits

Short-term liabilities related to employees (salaries, holiday pay) are recorded at undiscounted value and on an accrual basis. The obligation to pay salaries and holiday pay is based on contracts entered into with employees, collective agreements and legislation governing employment relationships, which give rise to an obligation for the Group to make payments.

Termination benefits are employee benefits payable in the event of extraordinary termination of employment contracts by the Group. If the benefit is payable more than 12 months after the balance sheet date, the benefit is discounted to its present value.

The Group recognises expected costs related to profit-sharing and the payment of bonuses when it has an obligation to make such payments and if the obligation can be measured reliably.

1.11 Income tax

According to the Income Tax Act, profits earned are not taxed, but dividends paid and other distributions are taxed in Estonia.

Owing to the whole concept of taxation, the term 'tax base of assets and liabilities' does not have any economic content, and therefore no deferred tax liability or asset can arise within the meaning of IAS 12 Income Taxes.

The balance sheet does not reflect the potential income tax liability in respect of the Group's unrestricted equity, which would result from the disbursement of the unrestricted equity as dividends. The maximum amount of income tax payable upon disbursement of all unrestricted equity as dividends is set out in Note 15.

Income tax payable on dividends is recognised as an expense in the income statement when the dividends are declared.

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

As of 2019, a tax rate of 14/86 can be applied to dividend payments. It can be applied to dividend payments not exceeding the average dividend payout for the previous three financial years that have been taxed at the rate of 20/80. 2018 is the first year to be taken into account when calculating the average dividend payouts for the previous three financial years.

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

Note 1 (continued)**1.12 Lease accounting*****Accounting policies – the Group as lessee from 1 January 2019*****Group as lessor**

Assets given on operating lease are recognised on the balance sheet as property, plant and equipment. Leased non-current assets are depreciated over the useful lives of the assets in the same way as other similar assets. Rental revenues (less any benefits granted to the lessee) are recognised in the statement of comprehensive income as revenues for the reporting period. The Group has not given any assets on finance lease.

Group as lessee

When entering into a contract, the Group assesses whether the contract is or contains a lease.

A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group determines the lease term as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, as well as periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The lessee reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a cancellation option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. The Group will revise the lease period in the event of a change in the non-cancellable period.

Initial measurement

The lessee measures right-of-use assets and lease liabilities as at the beginning of the lease term.

On initial recognition, the lessee measures the acquisition cost of the right-of-use asset at the beginning of the lease term. The cost of the right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement of the lease term, 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.

Note 1 (continued)

Right-of-use assets are recognised in the statement of financial position in the group "Property, plant and equipment".

The lessee measures the lease liability at the commencement of the lease term at the present value of outstanding lease payments at that date. The lease payments are 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 uses the lessee's alternative borrowing rate, which is the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

In determining the lessee's alternative borrowing rate, the Group has:

- used, where possible, the interest rate on third-party financing, adjusted to reflect changes in financing conditions since the third-party financing was received;
- derived it by using the average interest margin on borrowings in the sector as the starting point, adjusted with the credit risk of the Group;
- adjusted it to take account of the terms of the lease contract, such as the lease term, country, underlying currency and guarantees.

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

(a) fixed payments, less any lease incentives receivable;

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date. Variable lease payments that depend on an index or rate can be, for example, payments linked to the consumer price index, payments linked to a reference interest rate (such as Euribor) or payments based on market rental rates. Some of the Group's leases include variable lease payments;

(c) amounts expected to be payable by the lessee under residual value guarantees;

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

A lease contract can contain a lease component and one or more additional non-lease components. As a practical expedient, the Group has elected not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component according to the type of underlying asset.

Note 1 (continued)**Subsequent measurement**

After the lease term commencement date, the lessee measures the right-of-use asset using the acquisition cost model. To apply the acquisition cost model, the 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.

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 will depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee will 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, the lessee measures the lease liability by:

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

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. After the commencement date, the lessee recognises in profit or loss both 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.

In the event of a change in lease payments, the lease liability may need to be remeasured. The lessee recognises 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, the lessee recognises any remaining amount of the remeasurement in profit or loss.

The lessee remeasures the lease liability by discounting the revised lease payments using a revised discount rate, if:

- (a) there is a change in the lease term. The lessee determines the revised lease payments on the basis of the revised lease term; or
- (b) there is a change in the assessment of an option to purchase the underlying asset. The lessee determines the revised lease payments to reflect the change in amounts payable under the purchase option.

Note 1 (continued)

The remeasures the lease liability by discounting the revised lease payments if:

(a) there is a change in the amounts expected to be payable under a residual value guarantee. The lessee determines the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee;

(b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments (including for example a change to reflect changes in market rental rates following a market rent review). The lessee remeasures the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect). The lessee determines the revised lease payments for the remainder of the lease term based on the revised contractual payments. To that end, the lessee uses an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates.

The lessee accounts for a lease modification as a separate lease if (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and (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.

Accounting policies applied until 31 December 2018

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 are the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.

A lease contract is deemed to be a finance lease if all significant risks and rewards related to the ownership of the assets are transferred to the lessee. Assets leased under finance leases are carried on the balance sheet at the lower of fair value and the present value of the minimum lease payments. Lease payments are apportioned between the liability and finance charges so that the interest expense is constant with respect to the residual value of the net investment. The corresponding lease liability (without interest) is shown on the balance sheet as another current or non-current liability. The interest portion of the lease payment is recognised in the statement of comprehensive income as an accrued finance expense.

On initial application, the Group recognised right-of-use assets for leases that had previously been classified as operating leases in accordance with IAS 17.

Leases under which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments (less any discounts received from the lessor) are recognised in the statement of comprehensive income as an expense for the reporting period. All lease agreements entered into by the Group can be cancelled without additional significant expenses.

Note 1 (continued)**1.13 Provisions and contingent liabilities**

Liabilities assumed during the reporting period or in previous periods, which have a legal or contractual basis which requires the relinquishment of an asset in the future and the cost of which can be reliably measured but the final cost or payment term of which has not been fixed, are recognised as provisions on the balance sheet.

Provisions are recorded on the basis of the Management Board's assessment and experience and, if necessary, also the assessments 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 personally informed of the specific terms. The Group does not recognise provisions for expenses arising in connection with its continuing operations.

The Group has an obligation to pay benefits for incapacity for work to persons who have lost their capacity for work through the fault of the Group, over the remaining lifetime of the persons concerned. 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 amounts of the benefits (Note 9).

A holiday pay liability is recognised in the period in which the payment obligation arises, i.e. when the employee concerned is entitled to claim the holiday pay. Holiday pay earned or changes therein are reported in the statement of comprehensive income as an expense and recognised as a current liability on the balance sheet.

Other possible or existing liabilities whose realisation is less likely than non-realisation or for which the amount of the related expenses cannot be estimated with sufficient reliability are disclosed in the notes to the financial statements as contingent liabilities (Note 17) and are not recognised in the Group. The notes do not disclose contingent liabilities that are highly unlikely to materialise.

1.14 Events after the reporting period

Significant circumstances that occurred during the period of preparation of the annual financial statements and are related to transactions concluded in the reporting period or in previous periods have been taken into account in the valuation of assets and liabilities.

Events occurring after the balance sheet date that have not been taken into account in the valuation of assets and liabilities, but which significantly affect the result of the next financial year, are disclosed in the notes to the financial statements.

1.15 Determination of fair value**Derivatives**

The determination of fair value is based on quotations of the derivative at the balance sheet date. Derivatives with a positive market value are recognised as a receivable and derivatives with a negative market value are recognised as a liability.

Note 1 (continued)**1.16 Basis of preparation of the statement of cash flows**

The statement of cash flows has been prepared using the indirect method – net profit has been adjusted in determining the cash flow from operating activities, thus eliminating the impact of non-cash transactions and changes in the balances of current assets and current liabilities related to operating activities. Cash flow from investing and financing activities is recognised using the direct method. The cash flows of subsidiaries are consolidated in the statement of cash flows.

1.17 Consolidation principles, recognition of subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity if it receives or is entitled to variable profits from participation in the entity and can influence the amount of those profits by exercising its influence over the entity. All subsidiaries are consolidated in the Group's annual financial statements. In the consolidated financial statements the financial indicators of subsidiaries are consolidated line by line. Balances, transactions and unrealised gains and losses arising from transactions between Group companies have been eliminated in the consolidated financial statements. The accounting policies of all the Group companies are in compliance with the accounting policies of the Group.

Note 2. Management of financial risks**2.1 Financial risk factors**

In its day-to-day operations, the Group is exposed to various financial risks, the management of which is part of the Group's business. The main risk factors are market risk (incl. currency risk, price risk and interest rate risk), credit risk, liquidity risk, operational risk and capital risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to mitigate its potential negative effects on the Group's financial results. The Management Board has the general responsibility for developing and supervising the Group's risk management framework.

2.2 Market risks**Interest rate risk**

The Group's interest rate risk arises from financing and cash flow management activities. Interest rate risk is the possibility that the fair values or cash flows of a financial instrument will fluctuate because of changes in interest rates. The Group's interest rate risk arises mainly from current and non-current liabilities with a floating interest rate. The Group's interest rate risk is primarily dependent on possible changes in Euribor (Euro Interbank Offered Rate). Sensitivity analysis is used to assess interest rate risk.

Note 2 (continued)

At the balance sheet date the interest rate structure of the Group's interest-bearing financial liabilities was as follows:

<i>in thousands of euros</i>	31.12.2019	31.12.2018
Variable-rate financial liabilities (Note 8)	77,339	40,274
Total	77,339	40,274

If there had been a change of 100 basis points in the interest rates on variable-rate financial liabilities at the balance sheet date, profit (or loss) and equity would have increased (or decreased) as follows (assuming the remaining variables are constant and the Group has no hedging instruments). Calculations for 2018 were made on the same basis.

<i>in thousands of euros</i>	31.12.2019	31.12.2018
Increase by 100 basis points	-773	-403
Decrease by 100 basis points	773	403

The purpose of interest risk management is to reduce interest expenses whilst keeping the volatility of future interest payments in acceptable limits.

Currency risk

Currency risk is a risk that the fair value of financial instruments or cash flows will fluctuate in the future due to changes in foreign exchange rates. To hedge currency risks, the majority of contracts are made in euros and, where possible, foreign currency receipts and disbursements are balanced.

The Group is exposed above all to changes in the exchange rates of the Swiss franc, US dollar and Russian rouble.

In connection with the acquisition of non-current assets, the Group used a hedge accounting instrument to hedge currency risk (rouble/euro) during the reporting year.

The following table sets out the Group's open currency positions at the balance sheet date:

<i>in thousands of euros</i>	31.12.2019			31.12.2018		
	CHF	USD	RUB	CHF	USD	RUB
Receivables	2	1	412	134	1	170
Payables	-169	-11	-408	0	-3	-358
Net positions	-168	-10	4	134	-2	-189

2.3 Credit risk

Credit risk means a potential financial loss occurring when a counterparty fails to meet its contractual obligations. The main sources of credit risk include cash and cash equivalents, other receivables, trade receivables, and derivatives with a positive value.

Note 2 (continued)

Maximum exposures to credit risk at the balance sheet date were as follows:

<i>in thousands of euros</i>	Note	31.12.2019	31.12.2018
Cash and cash equivalents	6	4,574	15,936
Receivables*	5	4,907	4,030
Total		9,481	19,966

*does not include prepayments of taxes or deferred expenses

As at 31.12.2019, the Group's credit risk amounted to 9.48 million euros (31.12.2018: 19.97 million euros).

The maximum exposure to credit risk of trade receivables was as follows at the balance sheet date:

<i>in thousands of euros</i>	31.12.2019	31.12.2018
not yet due	3,676	3,239
overdue 1-30 days	669	578
overdue 31-180 days	51	142
overdue 181-365 days	98	68
overdue over 1 year	413	3
Total (Note 5)	4,907	4,030

In order to reduce credit risks related to clients, the Group follows the principles that ensure the sale of services and products to those clients whose reliability has been proven by previous conduct. For clients with whom no contract has been concluded or whose solvency is doubtful, the requirement of advance payments is used. In addition, deposits are used to mitigate credit risk for rental services.

Before entering into a large-scale contract, a background check of the client is performed. Other methods of managing credit risk related to clients include daily monitoring of clients' payment behaviour and prompt implementation of the necessary measures.

As at 31.12.2019, the outstanding balance of doubtful receivables amounts to 0 euros (2018: 0 euros) (see Note 5 for further information).

The Group's current financial assets have been placed in current accounts and deposits of banks operating in Estonia. The Group may also invest financial assets in short-term commercial papers with a minimum credit rating of Baa1. Further information on cash and cash equivalents is provided in Note 6.

Note 2 (continued)

Credit quality of current financial assets by ratings*

<i>in thousands of euros</i>	31.12.2019	31.12.2018
Aa2	786	12,768
Aa3	428	2
A2	0	5
Baa1	3,361	3,161
Non-rated	4,907	4,030
Total	9,481	19,966

* Moody's long-term financial stability rating

2.4 Liquidity risk

Liquidity risk means that the Group may not be able to perform its financial liabilities on time due to cash flow shortages. The Group's principle in liquidity management is to always ensure the existence of sufficient liquidity to meet obligations on time and to finance the Group's strategic objectives.

The following liquidity analysis presents an analysis of undiscounted financial liabilities (excluding derivatives) by maturity, including estimated future interest payments as at 31.12.2019 (interest expenses are estimated based on interest rates effective on 31.12.2019):

<i>in thousands of euros</i>		31.12.2019				
	Note	Carrying amount	Contractual cash flows	Up to 1 year	1-5 years	Over 5 years
Borrowings	8	15,593	15,613	7,409	8,204	0
Lease liabilities	8	61,755	66,403	6,335	52,474	7,593
Trade payables	10	3,262	3,262	3,262	0	0
Other payables*	10	948	948	948	0	0
Total		81,557	86,225	17,953	60,678	7,593

<i>in thousands of euros</i>		31.12.2018				
	Note	Carrying amount	Contractual cash flows	Up to 1 year	1-5 years	Over 5 years
Lease liabilities	8	40,274	43,256	5,459	29,765	8,032
Trade payables	10	2,689	2,689	2,689	0	0
Other payables*	10	2,939	2,918	2,918	0	0
Total		45,902	48,863	11,066	29,765	8,032

* does not include tax arrears or payables to employees

Note 2 (continued)

2.5 Capital management

The Group is a company in which all shares are owned by the state. Decisions on the distribution of dividends and increase or decrease of share capital are made by the Republic of Estonia (in the person of the Minister of Economic Affairs and Communications). In each financial year, the amount of dividends to be paid by the Group into the state budget is determined by an order of the Government of the Republic of Estonia.

The Group's principle in capital management is to ensure the Group's sustainable development, credibility in the eyes of creditors and the market, and an optimal capital structure. Based on the owner's expectations, the optimal equity ratio of the company has been set in the range of 40%–45% for the period 2020–2024.

Equity ratio of the Group:

<i>in thousands of euros</i>	Note	31.12.2019	31.12.2018
Cash and cash equivalents (minus)	6	4,574	15,936
Borrowings	8	77,347	40,274
Net debt*		72,773	24,338
Equity		60,382	52,253
Operating profit before depreciation (EBITDA)		17,033	15,589
Total assets		145,185	99,666
<hr/>			
Net debt/operating profit before depreciation		4.3	1.6
Equity/Assets		42%	52%

*Borrowings – cash and cash equivalents

The Group's equity is sufficient to enable management to make additional investments and raise loans if necessary.

2.6 Operational risk

The Group's assets and liabilities are insured against unexpected losses, business interruption and additional expenses caused by an insured event, as well as against third party claims against the Group.

The insurance also covers, for example: environmental damage, crime risks, damage arising from the liability of management (Management Board, Supervisory Board and executives) and accidents, thefts and vandalism involving rolling stock and motor vehicles.

2.7 Fair value

The Group estimates that the fair values of financial assets and liabilities carried at amortised acquisition cost do not differ significantly as at 31.12.2019 and 31.12.2018. The financing terms for the borrowings reported in the Group's annual financial statements have been entered into in the recent past and in the meantime the market conditions have not changed significantly. As the majority of the Group's long-term borrowings have a floating interest rate that changes in line with changes in money market interest rates and management estimates that the loan margin has not changed significantly, their fair value does not differ significantly from the carrying amount.

Note 2 (continued)

The fair values of cash and cash equivalents, accounts receivable, other non-current receivables, current liabilities and accounts payable do not differ materially from their carrying amounts as they will materialise within 12 months or were recognised close to the balance sheet date.

Explanations of fair value input levels in accordance with IFRS 13:

- **Level 1:** quoted prices (unadjusted) in 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);
- **Level 3:** inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

All financial assets and liabilities are at Level 3 in the fair value hierarchy.

The fair value of financial instruments traded in active markets is based on quoted market prices as at the end of the reporting period. A market is considered active if quoted prices are readily and regularly available from an exchange, intermediary, broker, industry group, valuation service or regulatory body and represent the prices of actual and regular market transactions.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. An instrument is classified as a Level 2 instrument when all significant inputs required to determine fair value are observable. If one or more significant inputs are not based on observable market data, the instrument is classified as a Level 3 instrument.

Note 3. Property, plant and equipment, intangible assets and right-of-use assets

	Buildings and structures	Machinery and equipment	Other fittings, fixtures and equipment	Constructio n in progress	Intangible assets	Total
<i>in thousands of euros</i>						
31.12.2017						
Acquisition cost	8,882	118,647	638	84	48	128,298
Accumulated depreciation	-3,017	-72,984	-590	0	-14	-76,605
Carrying amount	5,865	45,663	48	84	35	51,693
Changes during 2018						
Acquisition	121	1,074	46	26,519	9	27,769
Reclassification	22	24,430	160	-24,612	0	0
Sale and write-off	-180	-2,769	-98	0	0	-3,047
Depreciation						
Charged in year	-298	-5,743	-28	0	-16	-6,085
Depreciation of non-current assets sold/written off	179	2,733	97	0	0	3,009
Reclassification as assets held for sale						
Changes in period	-156	19,725	177	1,907	-7	21,646
31.12.2018						
Acquisition cost	8,845	141,382	746	1,990	58	153,020
Accumulated depreciation	-3,136	-75,994	-521	0	-30	-79,681
Carrying amount	5,709	65,388	225	1,990	28	73,340
Initial application of IFRS 16 – acquisition cost	-51	-60,877	0	0	0	-60,928
Initial application of IFRS 16 – accumulated depreciation	22	8,990	0	0	0	9,012
Adjusted carrying amount						
01.01.2019	5,680	13,500	225	1,990	28	21,423
Changes during 2019						
Acquisition	0	3,849	145	7,826	167	11,988
Reclassification	175	4,422	0	-4,598	0	0
Sale and write-off	-17	-2,655	-100	0	0	-2,773
Depreciation						
Charged in year	-278	-2,396	-67	0	-19	-2,760
Depreciation of non-current assets sold/written off	16	2,626	100	0	0	2,742
Changes in period	-103	5,845	78	3,229	149	9,197
31.12.2019						
Acquisition cost	8,952	86,120	791	5,219	225	101,307
Accumulated depreciation	-3,375	-66,775	-488	0	-49	-70,687
Carrying amount	5,577	19,345	303	5,219	176	30,620

Improvements to property, plant and equipment were capitalised in 2019 in the amount of 7,728 thousand euros (2018: 1,790 thousand euros), of which 126 thousand euros (2018: 22 thousand

euros) were added to the group Buildings, 7,585 thousand euros (2018: 1,608 thousand euros) to the group Machinery and equipment and 17 thousand euros (2018: 160 thousand euros) to the group Other fittings, fixtures and equipment.

Note 3 (continued)

As at 31.12.2019, the Group had fully amortised non-current assets in use at acquisition cost of 48,353 thousand euros (2018: 49,387 thousand euros). As at 31.12.2019, as well as 31.12.2018, no assets of the Group were pledged.

Right-of-use assets

<i>in thousands of euros</i>	Buildings	Machinery and equipment	Total
Acquisition cost			
as at 31.12.2018	0	0	0
Reclassification from property, plant and equipment 01.01.2019	51	60,877	60,928
Application of IFRS 16 01.01.2019	621	108	729
Addition 2019	0	27,149	27,149
as at 31.12.2019	672	88,134	88,806
Accumulated depreciation			
as at 31.12.2018	0	0	0
Reclassification from property, plant and equipment 01.01.2019	-22	-8,990	-9,012
Application of IFRS 16 01.01.2019	0	0	0
Charged in year	-143	-3,357	-3,500
as at 31.12.2019	-165	-12,347	-12,512
Carrying amount			
as at 01.01.2019	650	51,995	52,645
as at 31.12.2019	507	75,787	76,294

Impairment tests of property, plant and equipment

At each balance sheet date, the Group assesses whether there is any indication that an asset may be impaired when certain events or changes in circumstances indicate that the carrying amount may not be recoverable. No indications of a possible decrease in the recoverable amount of assets were identified.

Management wrote down property, plant and equipment, the utilisation rate of which has become practically non-existent, in the amount of 323 thousand euros (2018: 216 thousand euros).

Note 4. Inventories

<i>in thousands of euros</i>	31.12.2019	31.12.2018
Spare parts for rolling stock	3,251	3,970
Fuel and lubricants	599	619
Other inventories	169	127
Total inventories	4,019	4,716

In the financial year, inventories were written off in the amount of 39 thousand euros (2018: 54 thousand euros) and written down by 143 thousand euros (2018: 141 thousand euros).

Note 5. Receivables

<i>in thousands of euros</i>	Note	31.12.2019	31.12.2018
Accounts receivable	2	4,907	4,030
Total accounts receivable	2	4,907	4,030
Prepaid taxes		704	489
Prepaid expenses		2,473	1,155
Total other receivables		3,177	1,645
Total receivables		8,084	5,674

Note 6. Cash and cash equivalents

<i>in thousands of euros</i>	Note	31.12.2019	31.12.2018
Cash at bank		4,574	7,244
Deposits		0	8,692
Total	2	4,574	15,936

Based on the agreements entered into, the Group has restrictions on cash balances in the amount of 500 thousand euros.

Note 7. Equity

7.1 Share capital

<i>in thousands of euros</i>	31.12.2019	31.12.2018
Share capital	2,556	2,556
Number of shares	2,556,466	2,556,466
Nominal value of shares (euros)	1	1
Dividends (euros)	1,500,000	0
Dividend per share (EUR/share)	0.59	0.00

Each share entitles its holder to participate in the general meeting of shareholders of the Group and gives one vote in making decisions. All shares carry equal rights in the distribution of profits and in liquidation proceeds in the event of possible liquidation of the Group.

The maximum number of authorised ordinary shares set in the Group's Articles of Association is 5,112,932 and the maximum share capital is 5,112 thousand euros.

7.2 Legal reserve

The legal reserve is increased annually by 5% of the profit for the year until the reserve reaches 10% of the registered share capital. The amount to be transferred to the reserve capital in each financial year is decided by the General Meeting. The legal reserve cannot be paid out as dividends, but it can be used to increase share capital and cover losses. As at 31.12.2019, the legal reserve amounts to 256 thousand euros and has reached the amount prescribed by law.

The legal reserve was not increased in the financial year (2018: 0 euros).

Note 8. Borrowings

Borrowings as at 31.12.2019

<i>in thousands of euros</i>	Balance on 31.12.2019	Incl. with a term of over 5 years	Incl. with a term of 1-5 years	Incl. with a term of up to 1 year	Due date	Underlying currency	Interest Rate
Lease liabilities	61,755	7,468	49,188	5,099	2020- 2029	EUR	2.237%
Long-term loans from credit institutions	8,204	0	8,204	0	2021- 2024	EUR	2.850% 3 months' Euribor + 1.1%
Overdraft	7,389	0	0	7,389	2020	EUR	1.1%
Total borrowings	77,347	7,468	57,391	12,488			

<i>in thousands of euros</i>	Balance on 31.12.2018	Incl. with a term of over 5 years	Incl. with a term of 1-5 years	Incl. with a term of up to 1 year	Due date	Underlying currency	Interest Rate
Finance lease liabilities	40,274	7,823	27,722	4,729	2018- 2028	EUR	1.300%
Total borrowings	40,274	7,823	27,722	4,729			

In 2019, interest expenses on finance leases were recognised in the amount of 872 thousand euros (2018: 539 thousand euros, Notes 14, 16) and interest expenses on other borrowings were recognised

in the amount of 62 thousand euros (2018: 0 thousand euros) in the statement of comprehensive income.

<i>in thousands of euros</i>	Cash and cash equivalents	Overdraft	Borrowings	Lease liabilities	Total
Net debt on 31.12.2017	13,589	0	0	-27,619	-14,030
Cash flows	2,249	0	0	-2,019	
Borrowings	0	0	0	-14,674	
Effect of changes in exchange rates	98	0	0	0	
Net debt on 31.12.2018	15,936	0	0	-40,274	-24,338
Cash flows	-11,484	0	0	-3,312	
Application of IFRS 16	0	0	0	-729	
Additions	0	-7,389	-8,204	-24,079	
Effect of changes in exchange rates	123	0	0	0	
Net debt on 31.12.2019	4,574	-7,389	-8,204	-61,770	-72,788

Note 9. Provisions

<i>in thousands of euros</i>	Benefits for incapacity for work
31.12.2018	636
Formation	140
Use	-43
Cancellation	-3
31.12.2019	730
Short-term provision	42
Long-term provision	688
Total provision	730

A provision for benefits for work-related injuries has been formed in the Group to pay compensation for injuries or damage to health sustained by employees in the performance of their duties (Note 1). The amount of the provision is determined based on the average payout period, which generally extends to the end of the employee's life, and the amount of the benefit payable. The payout period has been determined on the basis of Statistics Estonia's data on life expectancy by age. The Group adjusted the accounting principles of the provision for benefits for incapacity for work and changed the discount rate from 1.03% to 0.4%, which is in line with long-term interest rates.

Note 10. Trade payables and other current liabilities

<i>in thousands of euros</i>	Note	31.12.2019	31.12.2018
Accounts payable to suppliers	2	3,262	2,689
Total	2	3,262	2,689
Taxes payable		628	555
Accruals:			
– payables to employees		1,540	1,286
– social tax accruals		347	312
– other accruals		948	1,661
Total		3,464	3,813
Grand total		6,726	6,503

The amount of accounts payable to suppliers of 3,262 thousand euros (31.12.2018: 2,689 thousand euros) includes payables to suppliers of 180 thousand euros (31.12.2018: 381 thousand euros) for non-current assets.

Other accruals in the amount of 928 thousand euros (31.12.2018: 1,683 thousand euros) include clients' deposits in the amount of 919 thousand euros (31.12.2018: 1,053 thousand euros).

Note 11. Revenue from client contracts and other operating revenue

Revenue from client contracts by geographical regions		
<i>in thousands of euros</i>	2019	2018
Total sales to EU Member States	69,360	69,746
Estonia	61,437	64,532
Latvia	802	181
Lithuania	2,697	734
Finland	3,893	3,004
Austria	386	1,222
Other countries	145	73
Total sales to outside EU Member States	2,097	1,596
Russia	85	102
Ukraine	1,974	1,492
Other countries	38	2
Total revenue from client contracts	71,457	71,342

Geographical region indicates the location of the client.

Revenue from client contracts by fields of activity

<i>in thousands of euros</i>	Note	2019	2018
Transport services		46,878	48,095
Supporting and auxiliary transport activities		8,467	8,504
Rental services	16	15,008	11,698
Maintenance and repairs of rolling stock		327	1,815
Other		776	1,231
Total revenue from client contracts		71,457	71,342

Other operating revenue

<i>in thousands of euros</i>	2019	2018
Proceeds from sale of property, plant and equipment	1,150	1,229
Contractual penalties, default interest and compensation	515	150
Other	2,286	0
Total other operating revenue	3,950	1,379

Note 12. Operating expenses

<i>in thousands of euros</i>	Note	2019	2018
Raw materials		2,825	1,596
Fuel and energy		9,218	9,726
Use of freight wagons and containers		2,658	2,042
Use of infrastructure		20,502	23,790
Services related to rail transport		1,615	842
Other		1,013	517
Total goods, raw materials and services		37,831	38,514

<i>in thousands of euros</i>	Note	2019	2018
Rent and lease	16	533	605
Energy		123	132
Various office expenses		523	429
Transportation expenses		1,065	1,077
Personnel-related expenses		694	493
Other*		1,475	1,613
Total various operating expenses		4,413	4,350

Note 13 Labour costs

<i>in thousands of euros</i>	2019	2018
Salaries and bonuses	12,272	10,939
Social taxes	4,070	3,681
Capitalisation of labour costs	-498	-448
Total labour costs	15,844	14,172
Number of employees		
Number of employees at beginning of period	699	646
Number of employees at end of period	685	699
Average number of employees in full-time equivalents	688	676
Persons working under the contract of a supervisory or management body member	7	7
Persons working under employment contract	681	669
Total	688	676

Note 14. Financial income and expenses

<i>in thousands of euros</i>	Note	2019	2018
Interest income		190	29
Interest expenses on lease payments under IFRS 16	8.16	-872	-538
Other interest expenses		-68	0
Total interest expenses		-940	-538
Gains/losses on changes in exchange rates		123	229
Other financial income and expenses		-1	0
Total other financial income and expenses		-1	0
Total financial income and expenses		-628	-280

Note 15. Income tax

In accordance with the Income Tax Act in force, a company registered in Estonia does not pay income tax on the profits earned, but on the profits distributed. Pursuant to section 50 of the Act, starting from 1 January 2003 dividends paid by a company are subject to income tax regardless of the recipient of dividends. From 1 January 2015, the applicable tax rate is 20/80 on the amounts paid as dividends.

The 2019 amendment to the Act established a more favourable tax rate for regularly paid dividends, which is 14% (14/86 of the net amount, i.e. ~16.279%).

As of 2019, a tax rate of 14/86 can be applied to dividend payments. It can be applied to dividend payments not exceeding the average dividend payout for the previous three financial years that have been taxed at the rate of 20/80. 2018 is the first year to be taken into account when calculating the average dividend payouts for the previous three financial years.

The balance sheet does not reflect the potential income tax liability in respect of the Group's unrestricted equity, which would result from the disbursement of the unrestricted equity as dividends. Income tax arising from the disbursement of dividends is recognised under expenses in the profit and loss statement at the moment the dividends are declared.

The Group's retained earnings as at 31.12.2019 amount to 40,313 thousand euros (2018: 32,185 thousand euros). The maximum possible amount of income tax liability associated with the payment of all retained earnings as dividends in 2020 is 8,033 thousand euros (2018: 6,437 thousand euros). The Group can pay out 32,280 thousand euros as net dividends (2018: 25,748 thousand euros). According to the profit distribution proposal of the Group's Management Board, dividends of 9,500 thousand euros (2019: 1,500 thousand euros) will be paid in 2020, which entails a potential income tax liability of 2,331 thousand euros (2018: 375 thousand euros).

Note 16. Leases

Operating leases – Group as lessee

The Group leases various office space, workshops, locomotives, parking lots and other facilities under lease agreements, the terms and conditions of which are different and are renegotiated annually. The Group's management has recognised these leases, except for the head office lease and vehicle operating leases, as low-value leases.

As at 01.01.2019, the Group has recognised, in accordance with IFRS 16, operating leases as right-of-use assets in Note 3 and liabilities related to these agreements in Note 8.

Operating lease expenses on non-cancellable leases in future periods:

<i>in thousands of euros</i>	2019	2018
Year 1	0	437

Years 2-5	0	556
Over 5 years	0	53
Total	0	1,046

Non-current assets acquired under operating leases

<i>in thousands of euros</i>	31.12.2019	01.01.2019*
Right-of-use assets		
Buildings	507	650
Means of transport	75,893	51,995
Total	76,400	52,645
Lease liabilities		
Current	5,099	4,889
Non-current	56,656	36,114
Total	61,755	41,003

* Last year, the Group recognised lease assets and lease liabilities, which were classified as operating and finance leases, in accordance with IAS 17. Assets acquired under finance leases were recognised as right-of-use assets and liabilities as part of the Group's borrowings. Information on finance lease liabilities, interest rates and interest expenses for the period is provided in Note 8; information on right-of-use assets is given in Note 3.

Note 16 (continued)

The Group's consolidated statement of comprehensive income includes the following amounts related to leases:

<i>in thousands of euros</i>	Note	2019 (IFRS16)
Interest expenses (recorded under financial expenses)	8, 14	872
Expenditure on short-term leases (recorded under operating expenses)	12	1,070
Depreciation on buildings	3	140
Depreciation on means of transport	3	3,360
Total cash outflows related to 2019 leases		-4,210

In 2018, operating lease expenses were recognised in the profit and loss statement in accordance with IAS 17 as operating expenses under rental expenses in the amount of 605 thousand euros (Note 12).

Operating leases – Group as lessor

In 2019, the Group earned revenues from the lease of assets under operating leases (rolling stock, premises, storage sites)
in the amount of 15,008 thousand euros (2018: 11,698 thousand euros, Note 11).
Operating lease revenues from non-cancellable leases in future periods:

<i>in thousands of euros</i>	31.12.2019	31.12.2018
Year 1	13,730	11,065
Years 2-5	15,470	9,406
Over 5 years	4,716	0
Total	33,916	20,471

The Group has a number of operating leases that are renewed annually and therefore the duration of the contractual obligations does not exceed one year. Leased assets include rolling stock with an average remaining service life of 30 years.

<i>in thousands of euros</i>	31.12.2019	31.12.2018
Assets given on lease		
Acquisition cost	77,876	51,315
Accumulated depreciation	-8,815	-8,856
Residual value	69,061	42,460

Note 17. Contingent liabilities

Contractual obligations:

As at 31 December 2019, the company has entered into contracts for the years 2020 to 2029, obligations arising from which until the end of the contract period total 69,979 thousand euros (31.12.2018: 40,274 thousand euros).

Guarantees provided:

The parent guarantees the liabilities of the subsidiaries as follows:

contractual obligations of AS Operail Leasing in the amount of 509 thousand euros;

contractual obligations of Operail Leasing Finland Oy in the amount of 18,180 thousand euros;

contractual obligations of Operail Finland Oy in the amount of 30,555 thousand euros.

Contingent liabilities arising from litigation:

AS Eesti Raudtee has raised a claim of 6,151,991 euros, plus default interest at the statutory rate (as at the date of filing the action, i.e. 12.11.2018, the claim for default interest is 244,057.05 euros). On 20.11.2018, Harju County Court made a ruling accepting the action. On 11.12.2018, AS Operail submitted its reply to the action in which it did not acknowledge the claim and requested the action to be dismissed in full.

The court proceedings are at the pre-trial stage, and the court has not set a hearing time.

Contingent liabilities arising from tax audits:

The tax authority has not initiated or carried out a tax audit of the Group or an inspection of a single event in the period 01.01.2019–31.12.2019. The tax authority is entitled to review the Group's tax accounting within 5 years of the due date for filing a tax return and, if errors are identified, impose an additional amount of tax, interest and a penalty. The Group's management believes that there are no circumstances that could result in the tax authority imposing any significant additional tax amounts on the Group companies.

Note 18. Transactions with related parties

The Group's transactions with related parties include transactions with shareholders, members of the Supervisory Board and Management Board, employees, persons connected with the above persons, as well as companies over which the above persons have control or significant influence. The shareholder of AS Operail is the Republic of Estonia.

Balances with related parties by group

<i>in thousands of euros</i>	31.12.2019		31.12.2018	
	Receivables	Payables	Receivables	Payables

Companies related to the Government of the Republic of Estonia	1,825	590	2,776	1,071
Companies related to executive management and senior management	0	0	0	9
Total	1,825	590	2,776	1,080

<i>in thousands of euros</i>	2019		2018	
	Sales	Purchases	Sales	Purchases
Companies related to the Government of the Republic of Estonia	4,577	25,795	5,983	26,235
Companies related to executive management and senior management	0	6	0	57
Total	4,577	25,801	5,983	26,292

Purchase and sale transactions with related parties in 2018 and 2019 include purchases and sales of services.

Remuneration and other significant benefits for executive and senior management

<i>in thousands of euros</i>	2019	2018
Remuneration calculated for executive and senior management	508	482
Total	508	482

Severance pay is paid to a member of the Management Board only if he or she is removed by the Supervisory Board before the end of his or her term of office, and the severance pay may not exceed the member's three months' remuneration.

Note 19. Additional information on parent company

The financial information submitted about the parent company includes unconsolidated primary statements, the disclosure of which is required by section 30 (2) of the Accounting Act. The parent company's statements are based on the principles applicable to consolidated statements. In the parent company's statements, investments in subsidiaries are stated at acquisition cost.

Statement of financial position
in thousands of euros

	31.12.2019	31.12.2018
ASSETS		
Non-current assets		
Property, plant and equipment	25,700	40,036
Right-of-use assets	31,002	0
Intangible assets	176	28
Long-term financial investments	1,030	1,025
Long-term loans given	26,773	13,000
Total non-current assets	84,681	54,088
Current assets		
Inventories	4,019	4,716
Trade receivables	6,252	5,552
Other receivables	3,046	1,614
Cash and cash equivalents	1,256	11,978
Total current assets	14,573	23,860
TOTAL ASSETS	99,254	77,948
EQUITY AND LIABILITIES		
Equity		
Share capital	2,556	2,556
Share premium	17,256	17,256
Legal reserve	256	256
Other reserves	1	0
Retained earnings	29,935	23,265
Profit for financial year	7,176	8,170
Total equity	57,180	51,503
Non-current liabilities		
Borrowings	25,172	16,562
Provisions	688	596
Total non-current liabilities	25,860	17,159
Current liabilities		
Trade payables and other current liabilities	5,610	5,670
Borrowings	10,562	3,576
Provisions	42	40
Total current liabilities	16,214	9,286
TOTAL LIABILITIES	42,074	26,445
TOTAL EQUITY AND LIABILITIES	99,254	77,948

Note 19 (continued)

Profit and loss statement

<i>in thousands of euros</i>	2019	2018
OPERATING REVENUES		
Revenue from client contracts	64,593	67,496
Other operating revenue	3,517	1,379
Total operating revenues	68,110	68,875
OPERATING EXPENSES		
Goods, raw materials and services	37,829	38,645
Other operating expenses	4,241	4,136
Labour costs	15,764	14,156
Depreciation and impairment of non-current assets	4,341	4,869
Other operating expenses	132	96
Total operating expenses	62,306	61,902
OPERATING PROFIT	5,804	6,973
Financial income and expenses	1,747	1,197
PROFIT BEFORE INCOME TAX	7,551	8,170
Income tax on dividends	375	0
PROFIT FOR FINANCIAL YEAR	7,176	8,170
TOTAL COMPREHENSIVE INCOME FOR FINANCIAL YEAR	7,176	8,170

Note 19 (continued)

Statement of changes in equity

<i>in thousands of euros</i>	Note	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
Balance on 31.12.2017	7	2,556	17,256	256	0	23,264	43,333
Total comprehensive income for reporting period		0	0	0	0	8,170	8,170
Balance on 31.12.2018	7	2,556	17,256	256	0	31,435	51,503
Total comprehensive income for reporting period		0	0	0	0	7,176	7,176
Other reserves		0	0	0	1	0	1
Dividends paid		0	0	0	0	-1,500	-1,500
Balance on 31.12.2019	7	2,556	17,256	256	1	37,111	57,180

As at 31 December, the adjusted unconsolidated equity of the parent company is as follows:

<i>in thousands of euros</i>	2019	2018
Unconsolidated equity of parent company	57,180	51,503
Book value of subsidiaries in parent company's unconsolidated balance sheet	-1,030	-1,025
Value of subsidiaries using equity method (plus)	4,232	1,775
	60,382	52,253

Note 19 (continued)

Statement of cash flows

<i>in thousands of euros</i>	2019	2018
Cash flow from operating activities		
Net profit	7,176	8,170
Adjustments		
Depreciation and impairment of non-current assets	4,341	4,869
Financial income/expenses	-1,747	-1,197
Income tax on dividends paid	375	0
Profit (loss) on sale of non-current assets	-1,150	-1,229
Adjustment of reserves	198	-5
Other adjustments	-631	0
Total adjustments	-1,386	2,438
Changes in receivables and prepayments related to operating activities	-2,485	-522
Change in inventories	701	252
Change in payables and prepayments related to operating activities	-62	-2,301
Interest received	2,607	3
Total cash flow from operating activities	9,323	8,040
Cash flow from investing activities		
Prepayments for non-current assets	-41	0
Paid upon acquisition of property, plant and equipment and intangible assets	-19,529	-4,464
Proceeds from sale of property, plant and equipment and intangible assets	1,181	1,193
Loans granted	-13,918	-6,500
Repayments of loans granted	0	5,500
Receipt of financial investment	0	134
Total cash flow from investing activities	-32,307	-4,137
Cash flow from financing activities		
Borrowings	8,906	0
Overdrafts received	7,389	0
Finance lease principal repayments	-1,818	-1,240
Dividends paid	-1,500	0
Income tax on dividends paid	-375	0
Interest paid	-323	-166
Total cash flow from financing activities	12,279	-1,406
Total cash flow	-10,706	2,497
Cash and cash equivalents at the beginning of period	11,978	9,478
Change in cash and cash equivalents	-10,706	2,497
Effect of changes in exchange rates	-16	3

Cash and cash equivalents at the end of period	1,256	11,978
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Note 20. Subsidiaries

Subsidiary	Country of incorporation	Area of activity	Holding 31.12.2019	Holding 31.12.2018
Operail Leasing AS*	Estonia	Lease of railway rolling stock	100%	100%
Operail Leasing Finland Oy**	Finland	Lease of railway rolling stock	100%	100%
Operail Finland Oy	Finland	Organisation of rail transport	100%	100%

* Former business name until 07.03.2019: WagonPro AS

** Former business name until 22.10.2019: WagonPro Holding Oy

Note 21. Going concern

	2019	2018
Current assets	16,677	26,326
incl. cash at bank and in hand	4,574	15,936
Current liabilities	19,256	11,272
incl. overdraft	7,389	0
Working capital	-2,579	15,054

As at 31.12.2019, the working capital of the Group is negative in the amount of -2,579 thousand euros. The Group's negative working capital is mainly due to the financing of investment prepayments through an overdraft at the end of 2019 (on 31.12.2019 the overdraft amounts to 7,389 thousand euros).

In the current year (2020), the structure of liabilities will change. Current liabilities (overdrafts) used to finance reinvestments are replaced by non-current liabilities (long-term borrowings). According to the company's management, the negative working capital is temporary.

Note 22. Events after balance sheet date

At the beginning of 2020, the outbreak of a new coronavirus (Covid-19) was confirmed and by now it has spread all over the world, including Estonia, causing problems for companies and economic activities. The company treats this outbreak as a non-adjusting event after the balance sheet date. As the situation is unstable and rapidly evolving, we do not consider it appropriate to make a quantitative assessment of the potential impact of the outbreak on the company.

Profit distribution proposal

The Management Board of AS Operail proposes to the general meeting of shareholders to distribute the net profit of
9,628 thousand euros for 2019 as follows:

To be paid as dividends	9,500 thousand euros
To be included in retained earnings	128 thousand euros

Retained earnings after the distribution of the net profit for 2019 are 30,813 thousand euros.

/digitally signed/

Raul Toomsalu
Chairman of the Management Board

/digitally signed/

Paul Priit Lukka
Member of the Management Board

23.03.2020

Signatures of Members of Management Board

The Consolidated Annual Financial Statements of AS Operail for the financial year that ended on 31.12.2019 comprise the management report, the consolidated financial statements, the independent auditor's report and the profit distribution proposal.

The Management Board of the company has prepared the management report, the financial statements and the profit distribution proposal.

/digitally signed/

Raul Toomsalu

Chairman of the Management Board

/digitally signed/

Paul Priit Lukka

Member of the Management Board

23.03.2020

Independent statutory auditor's report

To shareholders of AS Operail

Opinion

In our opinion, the Consolidated Annual Financial Statements present fairly, in all material respects, the consolidated financial position of AS Operail and its subsidiaries (jointly "the Group") as at 31 December 2019 and of the Group's consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

What we have audited?

The Consolidated Annual Financial Statements of the Group audited by us comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the financial year ending on the abovementioned date;
- the consolidated statement of changes in equity for the financial year ending on the abovementioned date; and
- the consolidated statement of cash flows for the financial year ending on the abovementioned date;
- notes to the Consolidated Annual Financial Statements that contain significant accounting policies and procedures and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of consolidated annual 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 Group in accordance with the Code of Ethics for Professional Accountants (IESBA Code) published by the International Ethics Standards Board (IESBA) and the ethics requirements provided in the Auditors' Activities Act of the Republic of Estonia. We have met our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors' Activities Act of the Republic of Estonia.

Other information

The Management Board is responsible for the other information. The other information comprises the management report and the report on good corporate governance, but does not include the consolidated financial statements or our auditor's report thereon. Our opinion on the consolidated annual financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of management and those charged with governance in relation to the annual financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated annual financial statements in accordance with the 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 consolidated annual financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the consolidated annual financial statements, the Management Board is required to assess the capacity of the Group to continue as a going concern, present information, where relevant, in relation to circumstances related to the continuation as a going concern, and to employ the principle for consideration of continuation as a going concern, except if the Management Board is planning to either liquidate the Group or terminate its activities or it lacks a realistic alternative to the aforesaid. Those charged with governance are responsible for exercising supervision over the Group's financial reporting process.

Auditor's responsibilities for the audit of consolidated annual financial statements

Our objective is to obtain reasonable assurance about whether the consolidated annual 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. Although reasonable assurance is a high level of assurance, an audit conducted in compliance with the ISAs does not guarantee that material misstatements are always identified. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. Within the course of the audit conducted in compliance with the ISAs, we exercise professional discretion and maintain professional scepticism. We also:

- identify and evaluate risks that there may be material misstatements in the consolidated annual financial statements arising from fraud or error; we plan and conduct the audit procedures pursuant to the identified risks and collect sufficient and relevant audit materials for expressing our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than 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 Group's internal control;
- evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by the Management Board;
- decide whether the principle for continuing as a going concern employed by the management is relevant and whether, on the basis of the collected audit materials, there are any events or conditions that give rise to significant uncertainty that may bring about substantial doubt with regard to the sustainability of the Group. If we conclude that there is significant uncertainty, we are obliged to draw attention in the auditor's report to the information disclosed about this in the consolidated annual financial statements or, if the disclosed information is insufficient, then modify our opinion. Our conclusions are based on the audit evidence obtained until the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated annual financial statements, including the disclosures, and whether the consolidated annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- acquire sufficient relevant evidence on the financial information of the business units or business activities of the Group in order to present an opinion on the consolidated annual financial statements as a whole. We are

responsible for managing, supervising and conducting the audit of the Group and are solely responsible for our audit opinion.

- communicate with those charged with governance of the Group 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 have identified during the audit.

Janno Hermanson
Statutory Auditor, licence No. 570
AS PricewaterhouseCoopers
Activity licence No. 6
Pärnu mnt 15, Tallinn 10141
23 March 2020
Tallinn, Estonia

