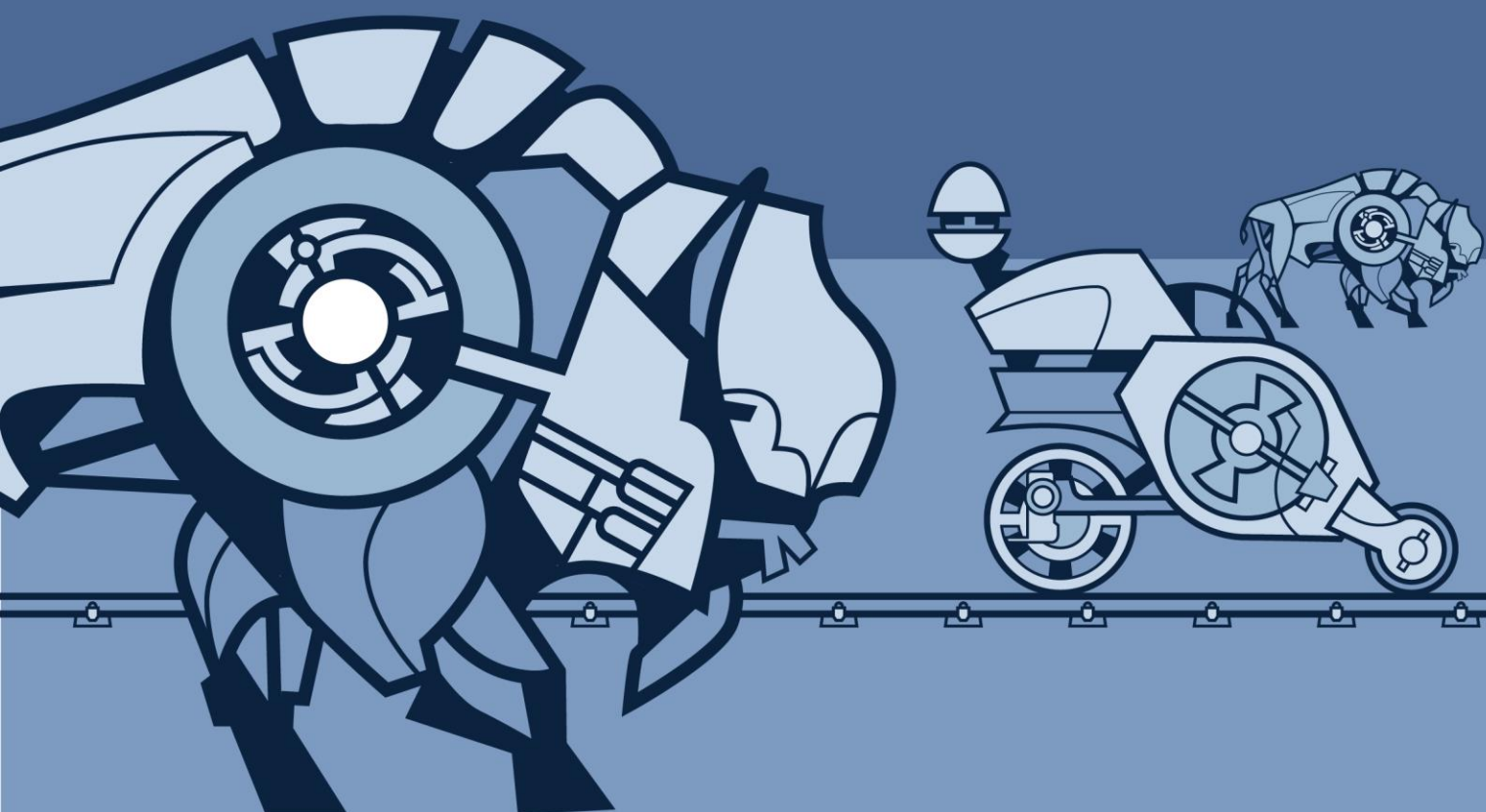




Consolidated Annual Financial Statements
for financial year ended on 31.12.2020

AS OPERAAIL



Contact details:

| | |
|------------------------------|--|
| Registered office: | Metalli 3, 10615 Tallinn, Republic of Estonia |
| Commercial Register code: | 11575850 |
| Beginning of financial year: | 01.01.2020 |
| End of financial year: | 31.12.2020 |
| Telephone: | +372 615 7600 |
| E-mail: | info@operail.com |
| Website: | www.operail.com |
| Auditor: | AS PricewaterhouseCoopers |
| Area of activity: | organisation of rail transport |

Contents

| | |
|--|-----------|
| MANAGEMENT REPORT | 4 |
| REPORT ON GOOD CORPORATE GOVERNANCE | 10 |
| CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | 15 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | 15 |
| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME | 16 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 17 |
| CONSOLIDATED STATEMENT OF CASH FLOWS | 18 |
| NOTES TO CONSOLIDATED ANNUAL FINANCIAL STATEMENTS | 19 |
| NOTE 1. ACCOUNTING POLICIES AND PROCEDURES | 19 |
| NOTE 2. MANAGEMENT OF FINANCIAL RISKS | 33 |
| NOTE 3. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS, RIGHT-OF-USE ASSETS AND PREPAYMENTS FOR NON-CURRENT ASSETS | 40 |
| NOTE 4. INVENTORIES | 42 |
| NOTE 5. RECEIVABLES AND PREPAYMENTS | 42 |
| NOTE 6. EQUITY | 42 |
| NOTE 7. BORROWINGS AND LEASE LIABILITIES | 43 |
| NOTE 8. PROVISIONS | 44 |
| NOTE 9. TRADE PAYABLES AND OTHER CURRENT LIABILITIES | 45 |
| NOTE 10. REVENUE FROM CLIENT CONTRACTS AND OTHER OPERATING REVENUE | 45 |
| NOTE 11. OPERATING EXPENSES | 46 |
| NOTE 12. LABOUR COSTS | 47 |
| NOTE 13. FINANCIAL INCOME AND EXPENSES | 47 |
| NOTE 14. INCOME TAX | 47 |
| NOTE 15. LEASES | 48 |
| NOTE 16. CONTINGENT LIABILITIES | 50 |
| NOTE 17. TRANSACTIONS WITH RELATED PARTIES | 51 |
| NOTE 18. ADDITIONAL INFORMATION ON PARENT COMPANY | 52 |
| NOTE 19. SUBSIDIARIES | 56 |
| NOTE 20. IMPACT OF COVID-19 | 56 |
| PROFIT DISTRIBUTION PROPOSAL | 57 |
| SIGNATURES OF MEMBERS OF MANAGEMENT BOARD | 58 |
| INDEPENDENT STATUTORY AUDITOR'S REPORT | 59 |

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.

The sole shareholder of the Group is the Estonian state. The Group is 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.

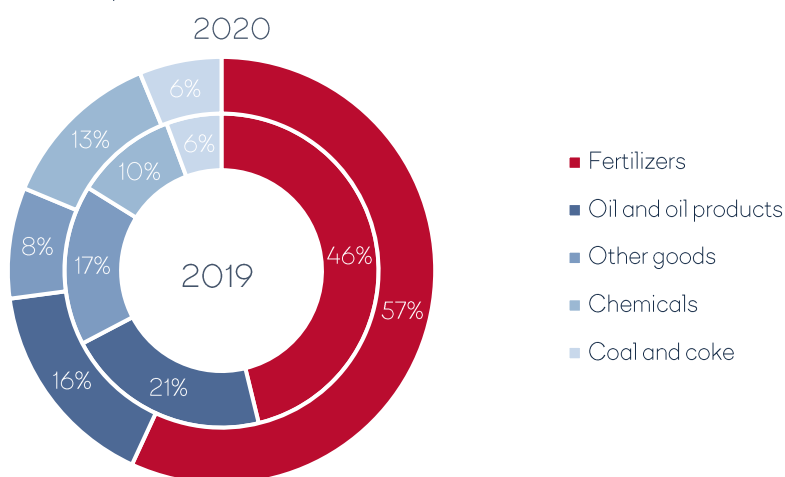
On 31.12.2020, the Group had over 80 line and shunting locomotives. The Group's wagon fleet includes over 3,400 freight wagons. The Group owns the wagons so as to service clients' freight transport in Estonia and internationally. Revenues from wagon rental and usage charges play an important role. The Group includes a rolling stock repair and maintenance unit and several rolling stock maintenance points all over Estonia.

As at the end of 2020, the Group includes, in addition to the parent company, AS Operail Leasing and Finnish subsidiaries Operail Finland Oy and Operail Leasing Finland Oy. The main area of activity of AS Operail Leasing and Operail Leasing Finland Oy is wagon rental. The main area of activity of Operail Finland Oy is rail transport in Finland – the company started servicing freight streams on the Finnish railway in November 2020.

Freight transport on Estonian railroads

The freight transport volume on the Estonian public railway as a whole was 11.2 million tonnes in 2020 (2019: -15%). The most important commodity groups included fertilizers (6.4 million tonnes; 2019: +5%), oil and oil products (1.8 million tonnes; 2019: -35%), chemicals (1.4 million tonnes; 2019: +2%) and coal and coke (0.7 million tonnes; 2019: -7%).

Breakdown of goods transported on Estonian railroads in 2019/2020

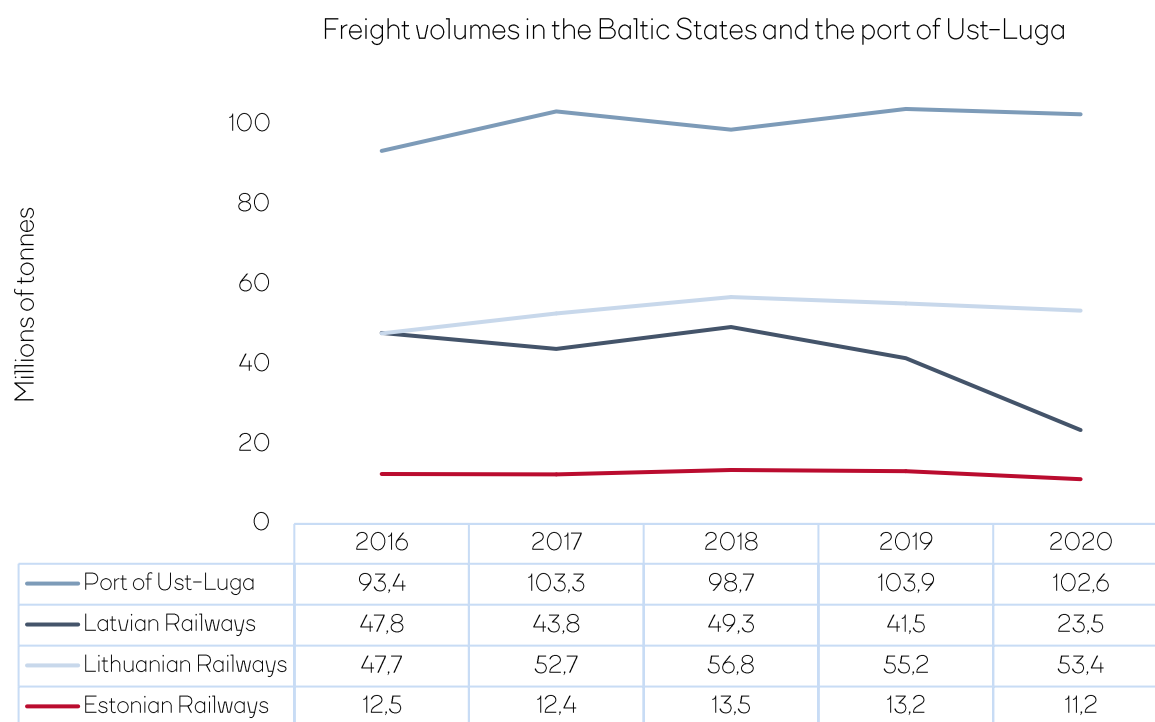


Freight volumes in other Baltic States

The freight volume of Latvian operators amounted to 23.5 million tonnes in 2020 (2019: -43%). The most important commodity groups were oil and oil products (6.5 million tonnes; 2019: -31%), coal (4.2 million tonnes; 2019: -76%) and timber and timber products (2.1 million tonnes; 2019: -25%).

The aggregate freight volume of Lithuanian operators was 53.4 million tonnes in 2020 (2019: -3%). The most important commodity groups included fertilizers (17.3 million tonnes; 2019: +7%), oil and oil products (11.3 million tonnes; 2019: -14%) and construction products (7.8 million tonnes; 2019: +5%).

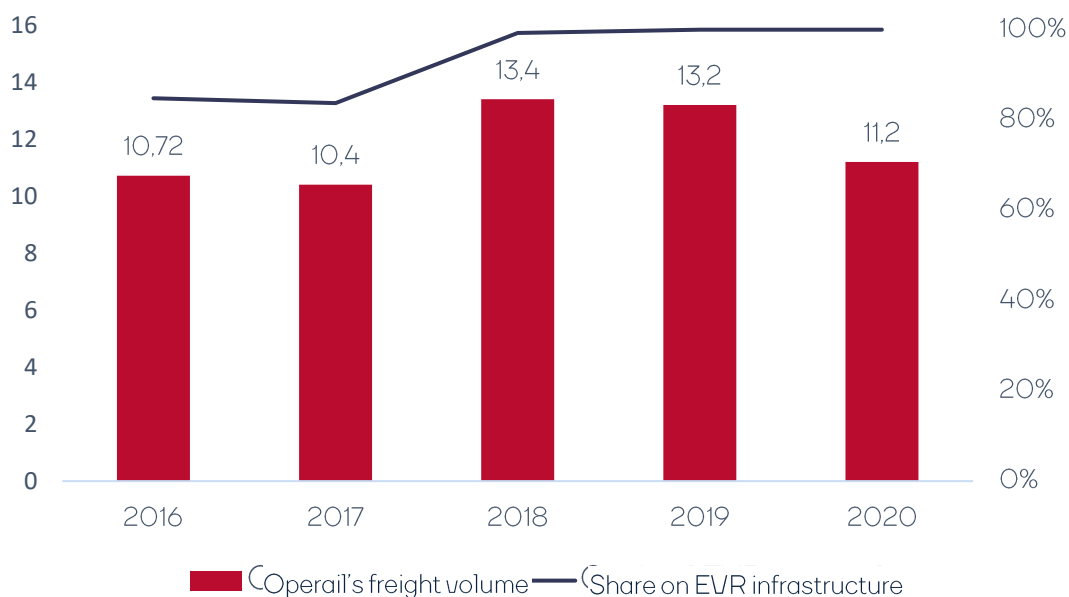
For comparison with other Baltic States, the graph below shows the freight volume of Ust-Luga, the largest port on the Baltic Sea. The freight volume of Ust-Luga was 102.6 million tonnes in 2020 (2019: -1%).



Group's freight volume

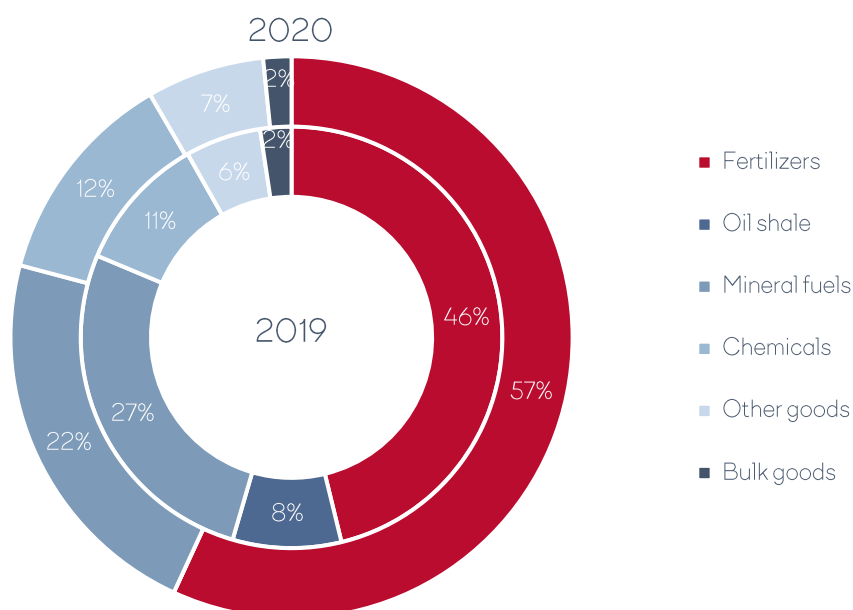
The freight volume of the Group amounted to 11.2 million tonnes in 2020 (2019: -15%). This made up 100% of the total freight carried on the infrastructure of AS Eesti Raudtee.

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



As in the previous year, the commodity group of fertilizers accounted for the greatest volume – 6.4 million tonnes (2019: +5%). 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 2.5 million tonnes (2019: -29%). Chemicals hold the third position in terms of freight volume – we transported them more than in 2019 – 1.4 million tonnes (2019: +2%).

Breakdown of goods transported by Operail in 2019/2020



The freight volume of container goods reduced to 46,141 TEU in 2020 (2019: -41%). The main reasons therefor lie in the temporary closure of production caused by the COVID-19 epidemic and better availability of tank wagons in 2020, due to which the volumes of tank containers and container goods decreased compared to those of the previous year. For comparison purposes, the volume of container traffic on Latvian railways reduced to 65,332 TEU in 2020 (2019: -2%) and the volume of container traffic on Lithuanian railways increased to 149,878 TEU (2019: +3%). By country, the greatest volumes of goods were transported to and from Russia: a total of 8.3 million tonnes (+3%). Other important countries included Belarus (0.7 million tonnes; -56%), Lithuania (0.7 million tonnes; -17%), Latvia (199 thousand tonnes; -10%), Ukraine (92 thousand tonnes; -36%), Kazakhstan (84 thousand tonnes; -18%) and Uzbekistan (35 thousand tonnes; +78%). Transit accounted for 78% (8.8 million tonnes) in the total freight volume, decreasing by 7% 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 pressure on the rental prices of wagons took place on the wagon rental market in 2020 due to the COVID-19 epidemic as the freight volumes reduced on the 1,520 mm broad-gauge railway network. At the end of 2020, the wagon fleet of Russia as the largest market participant included 1.20 million wagons (71% of the market volume) and had increased by 6% compared to 2019. The freight volumes on Russian railways reduced by 3% compared to the previous year. As at the end of the financial year, the Group had let out more than 1,000 wagons owned by AS Operail (2019: -9%), more than 900 wagons owned by AS Operail Leasing (2019: -4%) and almost 200 wagons owned by Operail Leasing Finland Oy (2019: +178%), or a total of more than 2,000 wagons (2019: -1%). In 2020, the number of wagons in Operail's joint fleet decreased and, as a result, revenues dropped by -35% to 1,290 thousand euros. The Group's wagons also service local transport.

Repairs

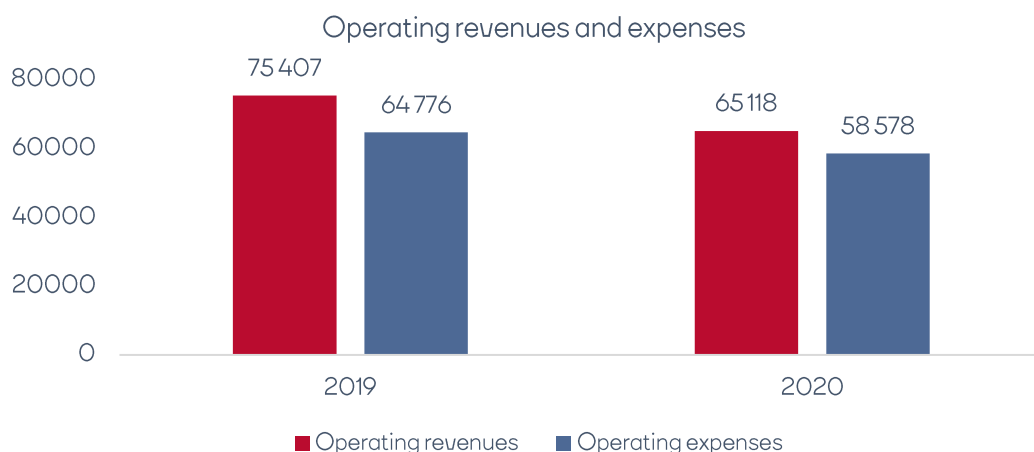
The activities of the Repairs business unit of Operail are focused on internal volumes, we maintain and carry out lifting and major repairs on locomotives, which will extend the service life of existing locomotives, and modernise locomotives.

Financial performance

Revenues and expenses

The Group's operating revenues for the financial year 2020 totalled 65,118 thousand euros (2019: -14%). Revenues from freight transport decreased by 17% to 36,791 thousand euros due to lower freight volumes. Revenues related to wagons increased and amounted to 16,024 thousand euros (2019: +7%). A major part of the revenue growth related to wagons arose from the commencement of activities on the Finnish market. Among the revenues related wagons, wagon rental revenues increased to 14,734 thousand euros (2019: +14%), while charges for use of the rental fleet dropped to 1,290 thousand euros (2019: -35%). Other operating revenues decreased to 2,540 thousand euros (2019: -36%), of which the bulk came from the lower sale of non-current assets (depreciated wagons and locomotives) and inventories (wheel disks).

The Group's operating expenses decreased to 58,578 thousand euros (2019: -10%). The decrease in operating expenses was due to the decrease in infrastructure usage charges, fuel costs and usage charges for wagons in the rental fleet.

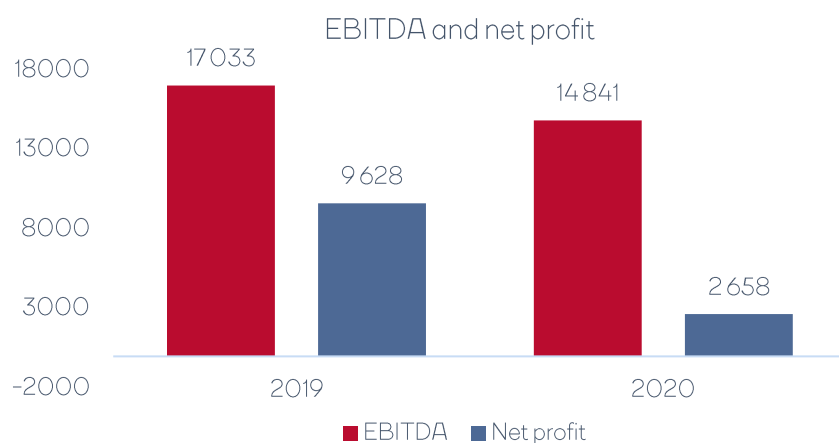


Expenditure on infrastructure usage charges fell by -23% due to the lower freight volumes (net tonne kilometre 2019: -18%). Usage charges were paid in the amount of 15,860 thousand euros. Fuel costs amounted to 6,374 thousand euros (2019: -31%). The drop in fuel costs was due to a lower freight volume and decline in the diesel fuel excise duty rates. Depreciation and impairment of non-current assets rose to 8,301 thousand euros (2019: +30%) due to an increase in non-current assets (Finnish locomotives, C-30M modernised locomotives, wagons). Labour costs totalled 16,831 thousand euros in the financial year (2019: +6%). The Group had 578 employees as of the end of 2020 (2019: 678). The decrease in the number of employees was due to the restructuring of activities in the Freight Transport business unit. The average gross salary of employees rose in 2020, reaching 1,793 euros a month (2019: 1,425 euros).

Profitability

The Group's EBITDA was 14,841 thousand euros in the financial year (2019: -13%). The Group's operating profit amounted to 6,540 thousand euros (2019: -38%).

The Group's interest expenses increased due to a rise in the loan volume by 64% to 1,540 thousand euros. Income tax expenses amounted to 2,344 thousand euros (2019: 375 thousand euros) and 9,500 thousand euros in dividends were paid in 2020 (2019: 1,500 thousand euros). The net profit for the financial year was 2,658 thousand euros (2019: 9,628 thousand euros).



Investments

In 2020, the Group invested 25,602 thousand euros (2019: 23,610 thousand euros) in property, plant and equipment and intangible assets, acquired assets with a right of use for 5,262 thousand euros (2019: 27,149 thousand euros) and made an advance payment for non-current assets of 3,923 thousand euros (2019: 21,565 thousand euros). The main investments were prepayments made for Finnish locomotives, acquisition of wagons, modernisation of the C30-M locomotives and major repairs of rolling stock.

The Group's liquid assets as at the balance sheet date amounted to 8,940 thousand euros (2019: 4,574 thousand euros). Increasing investments and indebtedness have increased the net debt/EBITDA ratio. The Group's net debt as at the end of 2020 amounted to 76,170 thousand euros (2019: 72,773 thousand euros) and the net debt/EBITDA ratio was 5.1 (2019: 4.3). The net debt/equity ratio was 101% at the end of the reporting period (2019: 121%).

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 of the financial statements for more information).

Dividends

The Group paid 9,500 thousand euros in dividends in the 2020 financial year (2019: 1,500 thousand 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 2021

Freight transport

The Group forecasts about a twenty percent increase in the freight transport volume for 2021, which results mainly from an increase in the Finnish freight transport volume as well as an increase in the volume of fuel and chemicals.

Wagon rental market

A stabilisation of market prices is expected to take place on the wagon rental market. Compared to previous years, the Group plans to increase investments in the wagon fleet in order to avoid a decrease in the rental revenues due to the end of the service life of older wagons. With regard to wagon rental revenues, in 2021 the Group tries to maintain the same revenue level as that of the previous year, but wagons will make fewer sorties from the joint fleet and income will be lower in 2021 than in the previous year.

Repairs

We will focus on locomotive modernisation and repair services and will provide freight wagon repair services in a small volume in 2021.

Report on Good Corporate Governance

General Meeting

During the 2020 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 13.03.2020, the remuneration of members of the Audit Committee consisting of members of the Supervisory Board of Operail was approved by a resolution of the sole shareholder.

On 12.05.2020, the sole shareholder passed resolution No. 1.1-5/20-025 removing Kuldar Leis and Madis Ermo from the Supervisory Board of AS Operail and electing Leon Jankelevitsh, Kaido Saar, Tarmo Porgand and Siret Liivamägi, based on their written consent, as members of the Supervisory Board for a term of 3 years.

On 01.07.2020, 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 2020 and deciding on profit distribution. The net profit of AS Operail for 2019 of 9,628,000 euros was distributed as follows: 9,500,000 euros to be paid as dividends and 128,000 euros to be included in retained earnings.

On 10.08.2020, the sole shareholder passed a resolution on increasing the share capital and amending the Articles of Association of AS Operail. The share capital of AS Operail was increased by 21,920,000 euros from former 2,556,466 euros to 24,476,466 euros by issue of new shares. Thus, as at 31.12.2020 the Republic of Estonia holds 24,476,466 shares.

On 18.08.2020, the new wording of the Articles of Association of AS Operail was approved and the Articles of Association of AS Operail, which had been approved by resolution No. 1.1-5/20-042 of the sole shareholder of 10.08.2020, were declared invalid by a resolution of the sole shareholder.

Supervisory Board

As of 20.01.2020, the Supervisory Board of AS Operail consisted of 3 members until (Peeter Kadarik was removed at his own request on 20.01.2020) and, as of 24.05.2020, the Supervisory Board consisted of 5 members. Section 80 of the State Assets Act provides requirements to candidates for membership of a governing body and section 80¹ prescribes the formation of the Appointments Committee whose task is, having regard to the specifics of the partially state-owned company, to make proposals to the administrator of the holding in that company concerning: 1) the election of members, including candidates for chairmanship, in the Supervisory Board, and concerning the removal of members from that Board; 2) the number of members in the Supervisory Board, and the duration of the members' mandate; 3) the rate of remuneration payable to members of the Supervisory Board. Pursuant to subsection 81 (1¹) of the State Assets Act, the holding administrator must base his or her actions on the proposal of the Appointments Committee when electing or removing members of the Supervisory Board of a partially state-owned company and concerning the number of members of the Supervisory Board of a partially state-owned company and the duration of their mandate. Pursuant to subsection (2) of the same provision, the holding administrator has a right, in justified cases, to disagree with the proposal of the Appointments Committee. In the case of disagreement with the proposal concerning the election or

removal of a member of the Supervisory Board, the Appointments Committee makes a new proposal to the holding administrator within 15 working days of learning of the disagreement.

Pursuant to article 5.5.3 of the Articles of Association of AS Operail, the Supervisory Board consists of 4 (four) to 8 (eight) members. The number of members of the Supervisory Board is determined on the basis of the size and financial situation of the company, as well as the need to ensure the effective implementation of the duties of the Supervisory Board provided for in section 316 of the Commercial Code.

Members of the Supervisory Board are elected by the holding administrator for a term of up to 5 (five) years. If one of the shareholders of the company is the Republic of Estonia, the shareholder has the right to make a proposal on the election and removal of a member of the Supervisory Board at least in respect of the number of the members of the Supervisory Board corresponding to the proportion of the shareholder's holding. The Chairman of the Supervisory Board, who 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 2020, 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 to 24.05.2020.
- 2) Madis Ermo from 22.05.2017 to 24.05.2020.
- 3) Peeter Kadarik from 22.05.2017 to 20.01.2020.
- 4) Indrek Gailan from 21.11.2019.
- 5) Leon Jankelevitsh from 24.05.2020, as the Chairman of the Supervisory Board from 03.06.2020.
- 6) Kaido Saar from 24.05.2020.
- 7) Tarmo Porgand from 24.05.2020.
- 8) Siret Liivamägi from 01.06.2020.

In 2020, the Supervisory Board was chaired until 24.05.2020 by Kuldar Leis and from 03.06.2020 by Leon Jankelevitsh.

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 2020, 17 meetings of the Supervisory Board were held, and 2 resolutions were adopted without convening a meeting. The Supervisory Board adopted a total of 56 resolutions in 2020. The Management Board is required to inform the Supervisory Board of all relevant circumstances and transactions, and to request the consent of the Supervisory

Board to enter transactions outside the scope of day-to-day business activities, particularly to enter into the transactions specified in article 5.5.7 of the Articles of Association.

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 Indrek Gailan were members of the Audit Committee in 2020. Leon Jankelevitsh replaced Kuldar Leis 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 Appointments 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 with the members of the Management Board.

On 08.06.2020, the Management Board approved the areas of responsibility of the Management Board by decision No. 1-2.3/27 as follows:

- 1) Chairman of the Management Board Raul Toomsalu – general management of the Freight, Wagons and Repairs units of the company, management of the supporting units (staff and marketing, sales, technology, safety and legal), as well as public communication.
- 2) Member of the Management Board Paul Priit Lukka – financial management of the company, general management of the Financial, Accounting, IT and Administration Department, substituting for the Chairman of the Management Board. Management of the projects for Finnish freight, logistics and wagon rental. Capital involvement.

The Management Board complied with the requirements of the second chapter of the GCG, taking thereby into account the specifications arising from the fact that AS Operail is a state company (subject to the specifications provided for in the State Assets Act), and the shares of AS Operail are not traded on a regulated securities market.

Subsidiaries

AS Operail Leasing

The members of the Management Board and the Chairman of the Supervisory Board (Kuldar Leis until 24.05.2020 and Leon Jankelevitsh from 24.05.2020) 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, which was established on 10.05.2017 and had entered into contracts for purchase of open wagons for wood chips, a lease framework agreement and annexes thereto, and two wagon leases with Finnish clients in 2019, continued active economic activities. 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). No new wagons were purchased in 2020. The company has 10,000 shares with a nominal value of 0.25 euros each, all of which are held by AS Operail.

Operail Finland Oy

In 2019, a 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 started in the second half of 2020.

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

Remuneration and compensation

Remuneration and benefits of the members of the Management Board of the company are set out in the agreements entered 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. 1-2-2/15 of the Supervisory Board of 24.03.2020, Raul Toomsalu and Paul Priit Lukka as members of the Management Board were paid additional remuneration in the amount of 3.5 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 2020, there were no transactions between persons related to a member of the Management Board on the one side and the company on the other side, in addition to intra-group transactions (Note 17).

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 or employees 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 Procedure for the prevention of conflicts of interests by decision No. 1-2.3/14 of 16.03.2020.

Publication of information

AS Operail publishes information on the shareholder and the composition of the Supervisory Board, and the composition of the Management Board on its website. In addition, the company's Articles of Association, annual financial statements, interim reports (3, 6 and 9 months) 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 | 31.12.2020 | 31.12.2019 |
|--|------|----------------|----------------|
| ASSETS | | | |
| Non-current assets | | | |
| Prepayments for non-current assets | 3 | 11,015 | 21,596 |
| Property, plant and equipment | 3 | 58,453 | 30,443 |
| Right-of-use assets | 3.15 | 80,555 | 76,294 |
| Intangible assets | 3 | 394 | 176 |
| Total non-current assets | | 150,417 | 128,508 |
| Current assets | | | |
| Inventories | 4 | 5,682 | 4,019 |
| Trade receivables | 2.5 | 4,501 | 4,907 |
| Other receivables | 2.5 | 1,482 | 3,177 |
| Cash and cash equivalents | 2 | 8,940 | 4,574 |
| Total current assets | | 20,605 | 16,677 |
| TOTAL ASSETS | | 171,022 | 145,185 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 6 | 24,476 | 2,556 |
| Share premium | | 17,256 | 17,256 |
| Legal reserve | 6 | 256 | 256 |
| Other reserves | | 1 | 1 |
| Retained earnings | 14 | 33,470 | 40,313 |
| Total equity | 2.5 | 75,459 | 60,382 |
| Non-current liabilities | | | |
| Lease liabilities | 2.7 | 60,514 | 56,656 |
| Borrowings | 2.7 | 19,928 | 8,204 |
| Provisions | 8 | 645 | 688 |
| Total non-current liabilities | | 81,087 | 65,548 |
| Current liabilities | | | |
| Trade payables and other current liabilities | 9 | 9,770 | 6,726 |
| Lease liabilities | 2.7 | 4,668 | 5,099 |
| Borrowings | 2.7 | 0 | 7,389 |
| Provisions | 8 | 38 | 42 |
| Total current liabilities | | 14,476 | 19,256 |
| TOTAL LIABILITIES | | 95,563 | 84,803 |
| TOTAL EQUITY AND LIABILITIES | | 171,022 | 145,185 |

The Notes presented on pages 18–55 form inseparable parts of the Annual Financial Statements.

Consolidated Statement of Comprehensive Income

| <i>in thousands of euros</i> | Note | 2020 | 2019 |
|---|------|---------------|---------------|
| OPERATING REVENUES | | | |
| Revenue from client contracts | 10 | 62,578 | 71,457 |
| Other operating revenue | 10 | 2,540 | 3,950 |
| Total operating revenues | | 65,118 | 75,407 |
| OPERATING EXPENSES | | | |
| Goods, raw materials and services | 11 | 28,996 | 37,831 |
| Other operating expenses | 11 | 4,357 | 4,413 |
| Labour costs | 12 | 16,831 | 15,844 |
| Depreciation and impairment of non-current assets | 3 | 8,301 | 6,402 |
| Other operating expenses | | 93 | 286 |
| Total operating expenses | | 58,578 | 64,776 |
| OPERATING PROFIT (- LOSS) | | 6,540 | 10,631 |
| Financial income and expenses | 13 | -1,537 | -628 |
| PROFIT (- LOSS) BEFORE INCOME TAX | | 5,003 | 10,003 |
| Income tax | 14 | 2,345 | 375 |
| PROFIT (- LOSS) FOR FINANCIAL YEAR | | 2,658 | 9,628 |
| TOTAL COMPREHENSIVE INCOME (- LOSS) FOR FINANCIAL YEAR | | 2,658 | 9,628 |

The Notes presented on pages 18-55 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 31.12.2018 | 6 | 2,556 | 17,256 | 256 | 0 | 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 declared | | 0 | 0 | 0 | 0 | -1,500 | -1,500 |
| Balance on 31.12.2019 | 6 | 2,556 | 17,256 | 256 | 1 | 40,313 | 60,382 |
| Total comprehensive income for reporting period | | 0 | 0 | 0 | 0 | 2,658 | 2,658 |
| Share capital | | 21,920 | 0 | 0 | 0 | 0 | 21,920 |
| Dividends declared | | 0 | 0 | 0 | 0 | -9,500 | -9,500 |
| Balance on 31.12.2020 | 6 | 24,476 | 17,256 | 256 | 1 | 33,470 | 75,459 |

Further information about equity is disclosed in Note 6.

The Notes presented on pages 18–55 form inseparable parts of the Annual Financial Statements.

Consolidated Statement of Cash Flows

| <i>in thousands of euros</i> | Note | 2020 | 2019 |
|--|----------|----------------|----------------|
| Cash flow from operating activities | | | |
| Net profit for financial year | | 2,658 | 9,628 |
| Adjustments | | | |
| Depreciation and impairment of non-current assets | 3 | 8,301 | 6,402 |
| Financial income/expenses | 13 | 1,537 | 628 |
| Income tax | 14 | 2,345 | 375 |
| Profit (loss) on sale of non-current assets | 10 | -1,096 | -1,150 |
| Adjustments of reserve of benefits for incapacity for work | | -48 | 198 |
| Other adjustments | | -74 | -631 |
| Total adjustments | | 10,965 | 5,822 |
| Change in receivables and prepayments related to operating activities | 5 | 2,101 | -2,410 |
| Change in inventories | 4 | -1,663 | 701 |
| Change in payables and prepayments related to operating activities | 9 | 3,012 | 203 |
| Interest received | | 3 | 151 |
| Total cash flow from operating activities | | 17,076 | 14,095 |
| Cash flow from investing activities | | | |
| Prepayments paid for non-current assets | | -3,923 | -21,565 |
| Paid upon acquisition of property, plant and equipment and intangible assets | | -25,602 | -23,610 |
| Proceeds from sale of property, plant and equipment and intangible assets | | 1,102 | 1,181 |
| Total cash flow from investing activities | | -28,423 | -43,994 |
| Cash flow from financing activities | | | |
| Borrowings | 7 | 11,724 | 17,109 |
| Proceeds from sale and leaseback transactions | 7 | 7,198 | 0 |
| Overdrafts received / (- repaid) | 7 | -7,389 | 7,389 |
| Lease principal repayments | 7.15 | -4,389 | -3,312 |
| Contributions to share capital | | 21,920 | 0 |
| Dividends paid | | -9,500 | -1,500 |
| Income tax paid | | -2,343 | -375 |
| Interest paid | | -1,510 | -898 |
| Total cash flow from financing activities | | 15,712 | 18,414 |
| Total cash flow | | 4,366 | -11,485 |
| Cash and cash equivalents at the beginning of period | 2 | 4,574 | 15,936 |
| Change in cash and cash equivalents | | 4,366 | -11,485 |
| Effect of changes in exchange rates | | 0 | 123 |
| Cash and cash equivalents at the end of period | 2 | 8,940 | 4,574 |

The Notes presented on pages 18–55 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 31.12.2020 were signed by the Management Board on 23.03.2021. 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 2020 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, 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 2020:

Amendments to the Conceptual Framework for Financial Reporting and Definition of materiality – Amendments to IAS 1 and IAS 8

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Note 1 (continued)**Definition of materiality – Amendments to IAS 1 and IAS 8**

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

According to the Group's management, there will be no significant impact on the financial statements. Management has assessed the impact of the other standards that entered into force as of 1 January 2020 and concluded that the entry into force of the standards will not affect the Group's financial statements.

Corporate income tax and deferred income tax – Amendment to interpretation of IAS 12

Pursuant to the IFRS Interpretation Committee agenda decision regarding deferred tax related to investments in subsidiaries, both Estonia and Latvia have replaced the traditional profit-based tax regimes with distribution-based tax regimes where corporate income tax is not payable on profit but rather on distribution of dividends. In accordance with IAS 12.52A and 57A, in distribution-based tax regimes no current or deferred tax liability is recognised in respect of undistributed profits until a liability to pay dividends is recognised. As a market practice in Estonia, this accounting policy has been applied consistently to all undistributed profits in the Group, regardless of whether those profits accumulated in the parent or in the subsidiaries.

In June 2020, the IFRS Interpretation Committee made an agenda decision where it concluded that the principle set out in IAS 12.52A and 57A only applies to undistributed profits accumulated in the parent company and does not apply to undistributed profits accumulated in the subsidiaries. Instead, the principles described in IAS 12.39–40 should be followed in respect of undistributed profits in subsidiaries, stipulating that a deferred tax shall be recognised in respect of such accumulated profits, unless it is probable that they will not be distributed to the parent in the foreseeable future.

Deferred income tax is recognised on all temporary differences between the carrying amounts and tax bases of the Group's assets and liabilities (the tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes). Pursuant to the laws of the Republic of Estonia, the annual profit earned by entities is not taxed in Estonia. The corporate income tax liability arises on profit distribution and is recognised as an expense (in profit or loss for the period) at the time dividends are declared. Due to the nature of the taxation system, neither deferred income assets nor liabilities arise for the companies registered in Estonia, other than the potential income tax liability on their investments in subsidiaries. The Group's deferred income tax liability arises in relation to the companies in the countries where the profit for the financial year is taxable. The Group's deferred income tax liability also arises on investments in Estonian and Latvian subsidiaries and associates except where the timing of the reversal of taxable temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future. The examples of the reversal of taxable temporary differences are payment of dividends, sale or liquidation of an investment, and other transactions.

Note 1 (continued)

Since the Group controls the dividend policy of its subsidiaries, it is also able to control the timing of the reversal of temporary differences related to this investment. When the parent company has decided not to distribute the subsidiary's profit in the foreseeable future, it shall not recognise the deferred income tax liability. If the parent company expects to pay out dividends in the foreseeable future, the deferred income tax liability shall be measured to the extent of the planned dividend payment under the assumption that as of the reporting date there will be sufficient funds and equity available for the payment of dividends from which to distribute profits in the foreseeable future. For measuring the deferred income tax liability, the Group uses the tax rates that are expected to be applied based on the tax rates effective on the reporting date to taxable temporary differences in the period in which they are expected to reverse. The corporate income tax rate applicable in Estonia is 20% (the amount of tax payable forms 20/80 of the net distribution).

From 2019, regular dividend distributions are subject to a lower, 14% tax rate (the amount of tax payable is calculated as 14/86 of the net distribution). The lower tax rate can be applied every calendar year on dividend payments and other profit distributions to the extent that does not exceed the average amount of taxable paid dividends and other profit distributions of the previous three calendar years and taxable payments from equity.

The amendment to the accounting policy has no significant impact on the Group's financial performance for 2019 or 2020.

B) Standards issued but not yet effective and not early adopted**Classification of liabilities as current or non-current – Amendments to IAS 1**

These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period.

A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Note 1 (continued)

According to the company's management, there will be no significant impact on the financial statements. It is effective for annual periods beginning on or after 1 January 2023 and has not yet been adopted by the EU.

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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The actual results may differ from the estimates.

The estimates and underlying assumptions are reviewed periodically. The effects arising from the review of accounting estimates are recognised in the period in which the estimates are changed, if this only concerns the given period, or both in the given and future periods (if the change concerns both the current and future periods).

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 6 to 32 years. If the useful life of non-current assets of the Group were 10% longer, the depreciation would be 871 thousand euros larger and, if the useful life were 10% shorter, the depreciation would be 713 thousand euros less.

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.

Note 1 (continued)**1.3 Recognition of foreign currency transactions**

The functional and presentation currency of the company is the euro, but 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 31.12.2020 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 and right-of-use assets

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.

For more detailed information on recognition of right-of-use assets, see 1.12.

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 items are ready for commissioning.

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.

Note 1 (continued)**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.

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.

Note 1 (continued)**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.

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.

Note 1 (continued)

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 at amortised cost consist of trade receivables, other 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.

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 is the higher of the asset's fair value less costs to sell and its value in use.

Note 1 (continued)

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 amount 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.

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.

Note 1 (continued)**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 14. 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.

Corporate income tax on profits of the subsidiaries located in Finland and income tax expense on dividends of Estonian entities are recognised in the consolidated income statement. The Finnish legal entities that are part of the Group calculate taxable income and income tax in accordance with the legislation of the Republic of Finland. In the Republic of Finland, the profits are taxed upon distribution thereof at the income tax rate of 20% (2019: 20%).

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.

Note 1 (continued)

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. The useful life of right-of-use assets is determined using the same service lives as in the case of property, plant and equipment (Note 1.4).

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.

Right-of-use assets are recognised in the statement of financial position in the group "Right-of-use assets".

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.

Note 1 (continued)

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.

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 underlying 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.

Note 1 (continued)

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.

The lessee 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.

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 on the balance sheet in discounted amounts. Benefits payable to employees on the collective 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.

Note 1 (continued)

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 8).

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 16) 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 considered 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 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.

1.16 Basis of preparation of the statement of cash flows

The statement of cash flows has been prepared using the indirect method – the profit for the financial year 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.

Note 1 (continued)**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 annual financial statements. The accounting policies of all the Group companies are in compliance with the accounting policies of the Group.

1.18 Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset to the seller.

The company recognises leaseback in sale and leaseback transactions as a financing transaction if the assets are not sold within the meaning of IFRS 15. The assets sold are recognised in the statement of financial position of the company and the money received is recognised as a lease liability. After the commencement date, the lessee recognises interest on the lease liability in profit or loss.

1.19 Unconsolidated financial statements of the parent company presented in the notes to the consolidated annual financial statements

The separate unconsolidated main statements of the consolidating entity (parent company) are disclosed in the notes to the consolidated annual financial statements. The main statements of the parent company are prepared following the same accounting policies as applied upon the preparation of the consolidated annual financial statements with the exception of investments in subsidiaries and associates, which are reported in the unconsolidated statements using the acquisition cost method.

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.

Note 2 (continued)

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.

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> | 31.12.2020 | 31.12.2019 |
|--|-------------------|-------------------|
| Variable-rate financial liabilities (Note 7) | 85,111 | 77,338 |
| Total | 85,111 | 77,338 |

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 2019 were made on the same basis.

| <i>in thousands of euros</i> | 31.12.2020 | 31.12.2019 |
|------------------------------|-------------------|-------------------|
| Increase by 100 basis points | -851 | -773 |
| Decrease by 100 basis points | 851 | 773 |

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.

Note 2 (continued)

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

| <i>in thousands of euros</i> | 31.12.2020 | | | 31.12.2019 | | |
|------------------------------|-------------------|-------------|-----------|-------------------|------------|----------|
| | CHF | USD | RUB | CHF | USD | RUB |
| Receivables | 17 | 0 | 310 | 2 | 1 | 412 |
| Payables | -195 | -188 | -312 | -169 | -11 | -408 |
| Net positions | -178 | -188 | -2 | -168 | -10 | 4 |

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.

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

| <i>in thousands of euros</i> | Note | 31.12.2020 | 31.12.2019 |
|------------------------------|-------------|-------------------|-------------------|
| Cash and cash equivalents** | 2.3 | 8,940 | 4,574 |
| Receivables* | | 4,623 | 4,907 |
| Total | | 13,563 | 9,481 |

*does not include prepayments of taxes or deferred expenses

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

As at 31.12.2020, the Group's credit risk amounted to 13,556 thousand euros (31.12.2019: 9,481 thousand euros).

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

| <i>in thousands of euros</i> | 31.12.2020 | 31.12.2019 |
|------------------------------|-------------------|-------------------|
| not yet due | 3,788 | 3,676 |
| overdue 1-30 days | 195 | 669 |
| overdue 31-180 days | 194 | 51 |
| overdue 181-365 days | 29 | 98 |
| overdue over 1 year | 417 | 413 |
| Total (Note 5) | 4,623 | 4,907 |

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.

Note 2 (continued)

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 31.12.2020, the outstanding balance of doubtful receivables amounts to 595 thousand euros (2019: 0 euros) (see Note 5 for further information).

Although cash and cash equivalents are also included in the expected credit loss model of IFRS 9, the identified impairment loss was immaterial as at 31 December 2019 and 31 December 2020. The management estimates that the cash and cash equivalents of the Group are not exposed to significant credit risks.

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.

Credit quality of current financial assets by ratings*

| <i>in thousands of euros</i> | 31.12.2020 | 31.12.2019 |
|------------------------------|-------------------|-------------------|
| Aa2 | 209 | 786 |
| Aa3 | 4,289 | 428 |
| Baa1 | 4,442 | 3,361 |
| Non-rated | 4,623 | 4,907 |
| Total | 13,563 | 9,481 |

* 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.

Note 2 (continued)

The following liquidity analysis presents an analysis of undiscounted financial liabilities by maturity, including estimated future interest payments as at 31.12.2020 (interest expenses are estimated based on interest rates effective on 31.12.2020):

| <i>in thousands of euros</i> | | 31.12.2020 | | | | |
|------------------------------|-------------|------------------------|-------------------------------|---------------------|------------------|---------------------|
| | Note | Carrying amount | Contractual cash flows | Up to 1 year | 1-5 years | Over 5 years |
| Borrowings | 7 | 19,928 | 22,064 | 568 | 21,496 | 0 |
| Lease liabilities | 7 | 65,182 | 69,256 | 6,003 | 56,059 | 7,194 |
| Trade payables | 9 | 6,177 | 6,177 | 6,177 | 0 | 0 |
| Other payables* | 9 | 1,262 | 1,262 | 1,262 | 0 | 0 |
| Total | | 92,549 | 98,759 | 14,010 | 77,555 | 7,194 |

| <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 | 7 | 15,593 | 15 959 | 7,409 | 8,550 | 0 |
| Lease liabilities | 7 | 61,755 | 66,403 | 6,335 | 52,474 | 7,593 |
| Trade payables | 9 | 3,262 | 3,262 | 3,262 | 0 | 0 |
| Other payables* | 9 | 948 | 948 | 948 | 0 | 0 |
| Total | | 81,558 | 86,572 | 17,953 | 61,025 | 7,593 |

* does not include tax arrears or payables to employees

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.

Note 2 (continued)

Equity ratio of the Group:

| <i>in thousands of euros</i> | Note | 31.12.2020 | 31.12.2019 |
|---|-------------|-------------------|-------------------|
| Cash and cash equivalents (minus) | 2.5 | 8,940 | 4,574 |
| Borrowings | 7 | 85,110 | 77,347 |
| Net debt | 7 | 76,170 | 72,773 |
| Equity | 6 | 75,459 | 60,382 |
| Operating profit before depreciation (EBITDA) | | 14,841 | 17,033 |
| Total assets | | 171,022 | 145,185 |
| <hr/> | | | |
| Net debt/operating profit before depreciation | | 5.1 | 4.3 |
| Equity/Assets | | 44% | 42% |

*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 31.12.2020 and 31.12.2019. 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.

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.

Note 2 (continued)

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, right-of-use assets and prepayments for non-current assets

| <i>in thousands of euros</i> | Land, buildings and structures | Machinery and equipment | Other fittings, fixtures and equipment | Construction in progress | Intangible assets | Total |
|--|--------------------------------|-------------------------|--|--------------------------|-------------------|---------------|
| 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 |
| First application of IFRS 16 | -51 | -60,877 | 0 | 0 | 0 | -60,928 |
| Accumulated depreciation | 22 | 8,990 | 0 | 0 | 0 | 9,012 |
| Adjusted carrying amount 01.01.2019 | 5,680 | 13,501 | 225 | 1,990 | 28 | 21,423 |
| Changes during 2019 | | | | | | |
| Acquisition | 0 | 3,849 | 145 | 7,826 | 167 | 11,988 |
| Reclassification from construction in progress and prepayments | 175 | 4,422 | 0 | -4,598 | 0 | 0 |
| Sale and write-off at acquisition cost | -17 | -2,655 | -100 | 0 | 0 | -2,773 |
| Depreciation | | | | | | |
| Depreciation/impairment | -278 | -2,396 | -67 | 0 | -19 | -2,760 |
| Depreciation of non-current assets sold/written off at acquisition cost | 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 |
| Changes during 2020 | | | | | | |
| Acquisition | 0 | 631 | 22 | 34,668 | 253 | 35,574 |
| Reclassification from construction in progress and prepayments | 59 | 27,547 | 0 | -27,606 | 0 | 0 |
| Reclassification to assets used under the right-of-use (right-of-use assets) | 0 | -4,223 | 0 | 0 | 0 | -4,223 |
| Sale and write-off at acquisition cost | -6 | -4,687 | -67 | 0 | 0 | -4,760 |
| Depreciation | | | | | | |
| Depreciation/impairment | -392 | -2,603 | -84 | 0 | -35 | -3,113 |
| Depreciation of non-current assets sold/written off at acquisition cost | 2 | 4,680 | 67 | 0 | 0 | 4,749 |
| Changes in period | -337 | 21,345 | -62 | 7,062 | 218 | 28,227 |
| 31.12.2020 | | | | | | |
| Acquisition cost | 9,005 | 105,388 | 746 | 12,281 | 478 | 127,898 |
| Accumulated depreciation | -3,765 | -64,697 | -505 | 0 | -84 | -69,051 |
| Carrying amount | 5,240 | 40,691 | 241 | 12,281 | 394 | 58,847 |

Note 3 (continued)

Improvements to property, plant and equipment were capitalised in 2020 in the amount of 2,509 thousand euros (2019: 7,728 thousand euros), of which 13 thousand euros (2019: 126 thousand euros) were added to the group Buildings, 2,467 thousand euros (2019: 7,585 thousand euros) to the group Machinery and equipment and 29 thousand euros (2019: 17 thousand euros) to the group Other fittings, fixtures and tools. As at 31.12.2020, the Group had fully amortised non-current assets in use at acquisition cost of 43,376 thousand euros (2019: 48,353 thousand euros). As at 31.12.2020, as well as 31.12.2019, no assets of the Group were pledged.

In 2020, a prepayment was made for non-current assets of 3,923 thousand euros (2019: 40,169 thousand euros) and non-current assets were reclassified to non-current assets in progress in the amount of 14,503 thousand euros (2019: 18,602 thousand euros). The balance of the prepayment for non-current assets as at 31.12.2020 amounts to 11,015 thousand euros (2019: 21,596 thousand euros).

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 |
| 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 |
| Carrying amount as at 01.01.2019 | 650 | 51,995 | 52,645 |
| Addition of right-of-use assets | 0 | 27,149 | 27,149 |
| Calculated depreciation | -143 | -3,357 | -3,500 |
| 31.12.2019 | | | |
| Acquisition cost | 672 | 88,134 | 88,806 |
| Accumulated depreciation | -165 | -12,347 | -12,512 |
| Carrying amount (Note 15) | 507 | 75,787 | 76,294 |
| Reclassification from property, plant and equipment | 0 | 4,223 | 4,224 |
| Addition of right-of-use assets | 73 | 5,188 | 5,262 |
| Calculated depreciation | -167 | -5,021 | -5,188 |
| Right-of-use assets written off | 0 | -36 | -37 |
| 31.12.2020 | | | |
| Acquisition cost | 745 | 97,546 | 98,291 |
| Accumulated depreciation | -332 | -17,404 | -17,736 |
| Carrying amount (Note 15) | 413 | 80,142 | 80,555 |

Management wrote down property, plant and equipment, the utilisation rate of which has become practically non-existent, in the amount of 102 thousand euros (2019: 323 thousand euros).

Note 4. Inventories

| <i>in thousands of euros</i> | 31.12.2020 | 31.12.2019 |
|-------------------------------|-------------------|-------------------|
| Spare parts for rolling stock | 4,422 | 3,251 |
| Fuel and lubricants | 443 | 599 |
| Other inventories | 817 | 169 |
| Total inventories | 5,682 | 4,019 |

In the financial year, inventories were written off in the amount of 22 thousand euros (2019: 39 thousand euros) and written down by 36 thousand euros (2019: 143 thousand euros).

Note 5. Receivables and prepayments

| <i>in thousands of euros</i> | Note | 31.12.2020 | 31.12.2019 |
|--|-------------|-------------------|-------------------|
| Accounts receivable | 2.3 | 5,096 | 4,907 |
| Doubtful accounts | 2.3 | -595 | 0 |
| Total accounts receivable | 2.3 | 4,501 | 4,907 |
| Other short-term receivables | | 122 | 0 |
| Prepaid taxes | | 151 | 704 |
| Prepaid expenses | | 1,209 | 2,473 |
| Total other receivables | | 1,482 | 3,177 |
| Total receivables and prepayments | | 5,983 | 8,084 |

Note 6. Equity

6.1 Share capital

| <i>in thousands of euros</i> | 31.12.2020 | 31.12.2019 |
|---------------------------------|-------------------|-------------------|
| Share capital | 24,476 | 2,556 |
| Number of shares (pcs.) | 24,476,466 | 2,556,466 |
| Nominal value of shares (euros) | 1 | 1 |
| Dividends (euros) | 9,500,000 | 1,500,000 |

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 are ordinary shares for which monetary contributions have been made. All shares carry equal rights in the distribution of profits and in liquidation proceeds in the event of possible liquidation of the Group.

Pursuant to a resolution of the sole shareholder, the share capital was increased by 21,920 thousand euros on 10.08.2020 and a monetary contribution was made on 14.08.2020. The maximum number of authorised ordinary shares set in the Group's Articles of Association is 24,476,466 and the maximum share capital is 24,476 thousand euros.

Note 6 (continued)

6.2 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 31.12.2020, the legal reserve amounts to 256 thousand euros. The legal reserve was not increased in the financial year (2019: 0 euros).

The legal reserve is increased by a resolution of the shareholder after the balance sheet date in the amount of 1/20 of the profit of the financial year in the amount of 133 thousand euros.

Note 7. Borrowings and lease liabilities

Borrowings as at 31.12.2020

| <i>in thousands of euros</i> | Balance on 31.12.2020 | 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 | 65,182 | 7,113 | 53,402 | 4,668 | 2020- 2029 | EUR | 2.237% |
| Long-term loans from credit institutions | 19,928 | 0 | 19,928 | 0 | 2024 | EUR | 2.850% 3 months' Euribor + 1.1% |
| Overdraft | 0 | 0 | 0 | 0 | 2020 | EUR | 1.1% |
| Total borrowings | 85,110 | 7,113 | 73,330 | 4,668 | | | |

| <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 | | | |

1, 3 or 6 months' Euribor is added to the interest on lease liabilities.

The Group can draw on the overdraft to the maximum amount of 12,000 thousand euros and take long-term loans from credit institutions to the amount of up to 30,555 thousand euros. For further information on lease liabilities and borrowings, see Notes 2.2, 2.4, 2.5 and 15, 16.

In 2020, interest expenses on leases were recognised in the amount of 1,394 thousand euros (2019: 872 thousand euros, Notes 13, 15) and interest expenses on other borrowings were recognised in the amount of 146 thousand euros (2019: 68 thousand euros) in the statement of comprehensive income.

Note 7 (continued)

| <i>in thousands of euros</i> | Cash and cash equivalents | Overdraft | Borrowings | Lease liabilities | Total |
|-------------------------------------|---------------------------|---------------|----------------|-------------------|----------------|
| 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 | -24,064 | |
| Effect of changes in exchange rates | 123 | 0 | 0 | 0 | |
| Net debt on 31.12.2019 | 4,574 | -7,389 | -8,204 | -61,755 | -72,773 |
| Cash flows | 4,366 | 7,389 | 0 | 4,389 | |
| Application of IFRS 16 | 0 | 0 | 0 | -619 | |
| Additions | 0 | 0 | -11,724 | -7,198 | |
| Effect of changes in exchange rates | 0 | 0 | 0 | 0 | |
| Net debt on 31.12.2020 | 8,940 | 0 | -19,928 | -65,182 | -76,170 |

Note 8. Provisions

| <i>in thousands of euros</i> | Benefits for incapacity for work |
|------------------------------|----------------------------------|
| 31.12.2019 | 730 |
| Formation | -87 |
| Use | 39 |
| 31.12.2020 | 682 |
| Short-term provision | 38 |
| Long-term provision | 645 |
| Total provision | 682 |

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 0.4% to 0.19%, which is in line with long-term interest rates.

Note 9. Trade payables and other current liabilities

| <i>in thousands of euros</i> | Note | 31.12.2020 | 31.12.2019 |
|-------------------------------|-------------|-------------------|-------------------|
| Accounts payable to suppliers | 2.4 | 6,103 | 3,039 |
| Prepayments received | 2.4 | 74 | 223 |
| Total | 2.4 | 6,177 | 3,262 |
| Taxes payable | | 48 | 628 |
| Accruals: | | | |
| – payables to employees | | 1,967 | 1,540 |
| – social tax accruals | | 316 | 347 |
| – other accruals | 2.4 | 1,262 | 948 |
| Total | | 3,593 | 3,464 |
| Grand total | | 9,770 | 6,726 |

The amount of accounts payable to suppliers of 6,177 thousand euros (31.12.2019: 3,262 thousand euros) includes payables to suppliers of 2,312 thousand euros (31.12.2019: 180 thousand euros) for non-current assets.

Other accruals in the amount of 1,262 thousand euros (31.12.2019: 948 thousand euros) include clients' deposits in the amount of 1,130 thousand euros (31.12.2019: 919 thousand euros).

Note 10. Revenue from client contracts and other operating revenue

| <i>in thousands of euros</i> | 2020 | 2019 |
|--|---------------|---------------|
| Total sales to EU Member States | 60,644 | 69,360 |
| Estonia | 50,129 | 61,437 |
| Latvia | 1,645 | 802 |
| Lithuania | 3,098 | 2,697 |
| Finland | 5,159 | 3,893 |
| Austria | 0 | 386 |
| Germany | 599 | 0 |
| Other countries | 14 | 145 |
| Total sales to outside EU Member States | 1,934 | 2,097 |
| Russia | 218 | 85 |
| Ukraine | 1,646 | 1,974 |
| Other countries | 70 | 38 |
| Total revenue from client contracts | 62,578 | 71,457 |

Geographical region indicates the location of the client.

Note 10 (continued)

Revenue from client contracts by fields of activity

| <i>in thousands of euros</i> | 2020 | 2019 |
|---|---------------|---------------|
| Transport services | 39,995 | 46,878 |
| Supporting and auxiliary transport activities | 5,543 | 8,467 |
| Rental services (Note 15) | 16,090 | 15,008 |
| Maintenance and repairs of rolling stock | 523 | 327 |
| Other | 428 | 776 |
| Total revenue from client contracts | 62,578 | 71,457 |

Other operating revenue

| <i>in thousands of euros</i> | 2020 | 2019 |
|--|--------------|--------------|
| Proceeds from sale of property, plant and equipment | 1,100 | 1,150 |
| Sales of inventories | 568 | 1,508 |
| Contractual penalties, default interest and compensation | 414 | 515 |
| Sales of scrap metal | 189 | 417 |
| Other operating revenue | 269 | 361 |
| Total other operating revenue | 2,540 | 3,950 |

Note 11. Operating expenses

| <i>in thousands of euros</i> | Note | 2020 | 2019 |
|--|------|---------------|---------------|
| Raw materials | | 1,252 | 2,825 |
| Fuel and energy | | 6,374 | 9,218 |
| Use of freight wagons and containers | | 1,022 | 2,658 |
| Use of infrastructure | | 15,860 | 20,502 |
| Services related to rail transport | | 2,550 | 1,615 |
| Depot repairs of wagons | | 1,908 | 854 |
| Other | | 29 | 159 |
| Total goods, raw materials and services | | 28,996 | 37,831 |

| <i>in thousands of euros</i> | Note | 2020 | 2019 |
|---------------------------------------|------|--------------|--------------|
| Rent and lease | 16 | 339 | 533 |
| Energy | | 102 | 123 |
| Various office expenses | | 616 | 523 |
| Transportation expenses | | 230 | 1,065 |
| Personnel-related expenses | | 479 | 694 |
| Marketing and training expenses | | 238 | 350 |
| Insurance service | | 321 | 193 |
| Consultation and legal services | | 591 | 222 |
| Allowance for doubtful receivables | | 667 | 0 |
| Other | | 774 | 711 |
| Total other operating expenses | | 4,357 | 4,413 |

Note 12. Labour costs

| <i>in thousands of euros</i> | 2020 | 2019 |
|---|---------------|---------------|
| Salaries and bonuses | 13,514 | 12,272 |
| Social taxes | 4,447 | 4,070 |
| Capitalisation of labour costs | -1,130 | -498 |
| Total labour costs | 16,831 | 15,844 |
| Number of employees | | |
| Number of employees at beginning of period | 685 | 699 |
| Number of employees at end of period | 578 | 685 |
| Average number of employees in full-time equivalents | 628 | 688 |
| Persons working under the contract of a supervisory or management body member | 8 | 7 |
| Persons working under employment contract | 620 | 681 |
| Total | 628 | 688 |

Note 13. Financial income and expenses

| <i>in thousands of euros</i> | Note | 2020 | 2019 |
|--|------|---------------|-------------|
| Interest income | | 3 | 190 |
| Interest expenses on leases | 7.15 | -1,394 | -872 |
| Other interest expenses | | -146 | -68 |
| Total interest expenses | | -1,540 | -940 |
| Gains/losses on changes in exchange rates | | 0 | 123 |
| Other financial income and expenses | | 0 | -1 |
| Total other financial income and expenses | | 0 | -1 |
| Total financial income and expenses | | -1,537 | -628 |

Note 14. Income tax

Corporate income tax on profits of the subsidiaries located in Finland and income tax expense on dividends of Estonian entities are recognised in the consolidated income statement.

The Finnish legal entities that are part of the Group calculate taxable income and income tax in accordance with the legislation of the Republic of Finland. In the Republic of Finland, the profits are taxed upon distribution thereof at the income tax rate of 20% (2019: 20%).

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 payment of dividends is recognised under expenses in the income statement at the moment the dividends are declared.

Note 14 (continued)

| Income tax expenses | 2020 | 2019 |
|--|--------------|------------|
| Income tax expenses on dividends, Group | 2,331 | 375 |
| Income tax applicable to profits of Finnish subsidiaries | 14 | 0 |
| Total | 2,345 | 375 |

The Group's retained earnings as at 31.12.2020 amount to 33,468 thousand euros (2019: 40,313 thousand euros). The maximum possible amount of income tax liability associated with the payment of all retained earnings as dividends in 2021 is 6,574 thousand euros (2019: 8,033 thousand euros). The Group can pay out 26,894 thousand euros as net dividends (2019: 32,280 thousand euros).

According to the profit distribution proposal of the Group's Management Board, the legal reserve will be increased by 5% on the account of the net profit in the amount of 133 thousand euros (2019: 0 thousand euros) and dividends of 2,525 thousand euros (2020: 9,500 thousand euros) will be paid in 2021, which entails a potential income tax liability of 411 thousand euros (2019: 2,331 thousand euros).

Note 15. Leases

Group as lessee

The Group leases various office spaces, 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, leases as right-of-use assets in Note 3 and liabilities related to these agreements in Note 7.

| <i>in thousands of euros</i> | 31.12.2020 | 31.12.2019 |
|------------------------------|---------------|---------------|
| Right-of-use assets | | |
| Buildings | 413 | 507 |
| Means of transport | 80,142 | 75,787 |
| Total | 80,555 | 76,294 |
| Lease liabilities | | |
| Current | 4,668 | 5,099 |
| Non-current | 60,514 | 56,656 |
| Total | 65,182 | 61,755 |

Note 15 (continued)

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

| <i>in thousands of euros</i> | Note | 2020 | 2019 |
|--|-------------|-------------|-------------|
| Interest expenses (recognised under financial expenses) | 7,13 | 1,394 | 872 |
| Expenditure on short-term leases (recorded under operating expenses) | | 1,332 | 1,070 |
| Depreciation on buildings | 3 | 167 | 140 |
| Depreciation on means of transport | 3 | 5,021 | 3,360 |
| Total cash outflows related to leases | | -5,783 | -4,210 |

Operating leases – Group as lessor

In 2020, the Group earned revenues from the lease of assets under operating leases (rolling stock, premises, storage sites) in the amount of 16,090 thousand euros (2019: 15,008 thousand euros, Note 10).

Operating lease revenues from non-cancellable leases in future periods:

| | 31.12.2020 | 31.12.2019 |
|--------------|-------------------|-------------------|
| Year 1 | 14,263 | 13,730 |
| Years 2-5 | 15,594 | 15,470 |
| Over 5 years | 3,715 | 4,716 |
| Total | 33,572 | 33,916 |

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> | 31.12.2020 | 31.12.2019 |
|------------------------------|-------------------|-------------------|
| Assets given on lease | | |
| Acquisition cost | 78,347 | 77,876 |
| Accumulated depreciation | -11,759 | -8,815 |
| Residual value | 66,589 | 69,061 |

Note 16. Contingent liabilities

Contractual obligations:

As at 31 December 2020, the company has entered into contracts for the years 2020 to 2029, obligations arising from which until the end of the contract period total 85,110 thousand euros (31.12.2019: 69,979 thousand euros, Note 7).

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 18,508 thousand euros;
- contractual obligations of Operail Finland Oy in the amount of 30,555 thousand euros.

Contingent material liabilities arising from litigation:

AS Eesti Raudtee has raised a claim of 6,152 thousand 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 thousand 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. If the expiry of the claim is established by the interim judgment, the action will be dismissed.

In addition, it is necessary to wait for the result of the additional administrative proceedings conducted by the Consumer Protection and Technical Regulatory Authority who has turned to the carriers and AS Eesti Raudtee with its letter of 15.02.2021 in order to obtain data.

The Group has not recognised a provision in respect of this claim as the Management Board deems the realisation of the liability unlikely.

In addition, there are several other pending disputes where Operail is either a plaintiff or a defendant, but the impact of these disputes alone does not exceed 263 thousand euros, due to which the Group does not consider it important to provide a detailed description of the disputes.

Contingent liabilities arising from tax audits:

The tax authority has not initiated or carried out a tax audit of the Group and the subsidiaries or an inspection of a single event in the period 01.01.–31.12.2020. 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 17. 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

in thousands of euros

| | 31.12.2020 | | 31.12.2019 | |
|---|-------------|--------------|--------------|------------|
| | Receivables | Payables | Receivables | Payables |
| Companies related to the Government of the Republic of Estonia | 797 | 1,392 | 1,825 | 590 |
| Companies related to executive management and senior management | 0 | 0 | 0 | 0 |
| Total | 797 | 1,392 | 1,825 | 590 |

in thousands of euros

| | 2020 | | 2019 | |
|---|--------------|---------------|--------------|---------------|
| | Sales | Purchases | Sales | Purchases |
| Companies related to the Government of the Republic of Estonia | 2,264 | 17,858 | 4,577 | 25,795 |
| Companies related to executive management and senior management | 0 | 8 | 0 | 6 |
| Total | 2,264 | 17,866 | 4,577 | 25,801 |

Purchase and sale transactions with related parties in 2019 and 2020 include purchases of services, the majority of which accounts for the infrastructure charge to AS Eesti Raudtee, and sales of services. Transactions with related parties are based on market prices and no receivables from related parties were written down.

Remuneration and other significant benefits calculated for executive and senior management

in thousands of euros

| | 2020 | 2019 |
|---|------------|------------|
| Remuneration calculated for executive and senior management | 363 | 346 |
| Total | 363 | 346 |

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 18. Additional information on parent company

Statement of financial position

| <i>in thousands of euros</i> | 31.12.2020 | 31.12.2019 |
|--|-------------------|-------------------|
| ASSETS | | |
| Non-current assets | | |
| Prepayments for non-current assets | 1,088 | 0 |
| Property, plant and equipment | 29,722 | 25,700 |
| Right-of-use assets | 33,073 | 31,002 |
| Intangible assets | 386 | 176 |
| Long-term financial investments | 1,280 | 1,030 |
| Long-term loans given | 29,183 | 26,773 |
| Total non-current assets | 94,733 | 84,681 |
| Current assets | | |
| Inventories | 4,910 | 4,019 |
| Trade receivables | 6,943 | 6,252 |
| Other receivables | 1,353 | 3,046 |
| Cash and cash equivalents | 4,746 | 1,256 |
| Total current assets | 17,952 | 14,573 |
| TOTAL ASSETS | 112,686 | 99,254 |
| EQUITY AND LIABILITIES | | |
| Equity | | |
| Share capital | 24,476 | 2,556 |
| Share premium | 17,256 | 17,256 |
| Legal reserve | 256 | 256 |
| Other reserves | 1 | 1 |
| Retained earnings | 32,308 | 37,111 |
| Total equity | 74,297 | 57,180 |
| Non-current liabilities | | |
| Lease liabilities | 28,764 | 25,172 |
| Provisions | 645 | 688 |
| Total non-current liabilities | 29,409 | 25,860 |
| Current liabilities | | |
| Trade payables and other current liabilities | 6,443 | 5,610 |
| Lease liabilities | 2,500 | 3,174 |
| Borrowings | 0 | 7,389 |
| Provisions | 38 | 42 |
| Total current liabilities | 8,980 | 16,214 |
| TOTAL LIABILITIES | 38,389 | 42,074 |
| TOTAL EQUITY AND LIABILITIES | 112,686 | 99,254 |

Note 18 (continued)

Profit and loss statement

| <i>n thousands of euros</i> | 2020 | 2019 |
|--|---------------|---------------|
| OPERATING REVENUES | | |
| Revenue from client contracts | 54,138 | 64,593 |
| Other operating revenue | 2,495 | 3,517 |
| Total operating revenues | 56,633 | 68,110 |
| OPERATING EXPENSES | | |
| Goods, raw materials and services | 27,163 | 37,829 |
| Other operating expenses | 4,198 | 4,241 |
| Labour costs | 16,084 | 15,764 |
| Depreciation and impairment of non-current assets | 5,013 | 4,341 |
| Other operating expenses | 90 | 132 |
| Total operating expenses | 52,548 | 62,306 |
| OPERATING PROFIT | 4,085 | 5,804 |
| Financial income and expenses | 2,943 | 1,747 |
| PROFIT BEFORE INCOME TAX | 7,028 | 7,551 |
| Income tax | 2,331 | 375 |
| PROFIT FOR FINANCIAL YEAR | 4,697 | 7,176 |
| TOTAL COMPREHENSIVE INCOME FOR FINANCIAL YEAR | 4,697 | 7,176 |

Note 18 (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 31.12.2018 | 6 | 2,556 | 17,256 | 256 | 0 | 31,435 | 51,503 |
| Profit 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 | 6 | 2,556 | 17,256 | 256 | 1 | 37,111 | 57,180 |
| Profit for reporting period | | 0 | 0 | 0 | 0 | 4,697 | 4,697 |
| Share capital | | 21,920 | 0 | 0 | 0 | 0 | 21,920 |
| Dividends paid | | 0 | 0 | 0 | 0 | -9,500 | -9,500 |
| Balance on 31.12.2020 | 6 | 24,476 | 17,256 | 256 | 1 | 32,307 | 74,296 |

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

| <i>in thousands of euros</i> | 2020 | 2019 |
|---|---------------|---------------|
| Unconsolidated equity of parent company | 74,296 | 57,180 |
| Book value of subsidiaries in parent company's unconsolidated balance sheet | -1,280 | -1,030 |
| Value of subsidiaries using equity method (plus) | 6,243 | 4,910 |
| Adjusted unconsolidated equity of parent company | 79,259 | 61,060 |

Note 18 (continued)

Statement of cash flows

| <i>in thousands of euros</i> | 2020 | 2019 |
|--|----------------|----------------|
| Cash flow from operating activities | | |
| Net profit for financial year | 4,697 | 7,176 |
| Adjustments | | |
| Depreciation and impairment of non-current assets | 5,013 | 4,341 |
| Financial income/expenses | -2,943 | -1,747 |
| Income tax on dividends paid | 2,331 | 375 |
| Profit (loss) on sale of non-current assets | -1,096 | -1,150 |
| Adjustments of reserve of benefits for incapacity for work | -48 | 198 |
| Other adjustments | -74 | -631 |
| Total adjustments | 3,183 | 1,386 |
| Change in receivables and prepayments related to operating activities | 2,714 | -2,485 |
| Change in inventories | -891 | 701 |
| Change in payables and prepayments related to operating activities | 852 | -62 |
| Interest received | 1,372 | 2,607 |
| Total cash flow from operating activities | 11,926 | 9,324 |
| Cash flow from investing activities | | |
| Prepayments for non-current assets | -3,627 | -41 |
| Paid upon acquisition of property, plant and equipment and intangible assets | -8,189 | -19,529 |
| Proceeds from sale of property, plant and equipment and intangible assets | 1,102 | 1,181 |
| Loans granted | -3,111 | -13,918 |
| Repayments of loans granted | 845 | 0 |
| Total cash flow from investing activities | -12,980 | -32,307 |
| Cash flow from financing activities | | |
| Borrowings | 0 | 8,906 |
| Proceeds from sale and leaseback transactions | 4,725 | 0 |
| Repayments of overdrafts | -7,389 | 0 |
| Overdrafts received | 0 | 7,389 |
| Lease principal repayments | -2,351 | -1,818 |
| Contributions to share capital | 21,920 | 0 |
| Dividends paid | -9,500 | -1,500 |
| Income tax on dividends paid | -2,331 | -375 |
| Interest paid | -528 | -323 |
| Total cash flow from financing activities | 4,545 | 12,279 |
| Total cash flow | 3,490 | -10,706 |
| Cash and cash equivalents at the beginning of period | 1,256 | 11,978 |
| Change in cash and cash equivalents | 3,490 | -10,706 |
| Effect of changes in exchange rates | 0 | -16 |
| Cash and cash equivalents at the end of period | 4,746 | 1,256 |

Note 19. Subsidiaries

| Subsidiary | Country of incorporation | Area of activity | Holding 31.12.2020 | Holding 31.12.2019 |
|------------------------------|--------------------------|--------------------------------|-----------------------|-----------------------|
| 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 20. Impact of Covid-19

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 global coronavirus pandemic also had a certain impact on the business activities of the Group in 2020. The volume of container goods reduced, which could be related to the closure of several production units due to the extensive spread of the virus, pressure on the rental prices of wagons of the 1,520 mm broad-gauge railway network had a certain impact on the rental prices of wagons, and, due to the delay in the deliveries of Finnish locomotives, the start time of Finnish freight transport was postponed. Although the coronavirus epidemic had an adverse impact on the Group's financial performance for the financial year, the management estimates that the coronavirus epidemic has no direct significant impact on the cash flows and financial position of the next financial years.

These annual financial statements have been prepared in the manner that the possible impact of the coronavirus has been taken into account in the annual financial statements of the year that has just ended and its possible impact on the cash flows and financial position of the next financial years has also been considered.

Profit distribution proposal

The Group's retained earnings as at 31.12.2020 amount to 33,468 thousand euros.

The Management Board of AS Operail proposes to the general meeting of shareholders to distribute the net profit of 2,658 thousand euros for 2020 as follows:

| | |
|--|----------------------|
| To be paid as dividends | 2,525 thousand euros |
| To be transferred to the legal reserve | 133 thousand euros |

Retained earnings after the distribution of the net profit for 2020 are 30,810 thousand euros.

/digitally signed/

Raul Toomsalu
Chairman of the Management Board
Board

/digitally signed/

Paul Priit Lukka
Member of the Management

23.03.2021

Signatures of Members of Management Board

The Consolidated Annual Financial Statements of AS Operail for the financial year that ended on 31.12.2020 comprise the management report, the consolidated financial statements, the independent statutory 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
Board

/digitally signed/

Paul Priit Lukka
Member of the Management

23.03.2021

Independent statutory auditor's report

