

OPERAIL

Yearbook 2020



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OPERAIL
Yearbook
2020

Operail – More Than Railways

We are an international logistics company with the railway at the heart of our operations. We transport goods, lease out wagons, and repair and build rolling stock. We have 150 years of experience and employ 600 people in Estonia and Finland.



INTRODUCTION



Beginning of financial year:	1 January 2020
End of financial year:	31 December 2020
Company name:	AS Operail
Commercial Register code:	11575850
Registered office:	Metalli 3, 10615 Tallinn, Estonia
Phone:	+372 615 7600
E-mail:	info@operail.com
Website:	www.operail.com
Field of activity:	organisation of railway transport
Management Board:	Raul Toomsalu, Paul Priit Lukka
Supervisory Board as of 1 June 2020:	Leon Jankelevitsh (Chairman), Indrek Gailan, Siret Liivamägi, Tarmo Porgand, Kaido Saar*
Auditor:	AS PricewaterhouseCoopers

Operail in brief

Our business areas

1. Freight transport – we have longstanding experience in transporting different groups of goods by rail, we handle transit goods, and carry international and domestic Estonian freight.

2. Rolling stock rental – our wagons move goods via the 1,520 mm gauge railway network and successfully service trade between China and Europe.

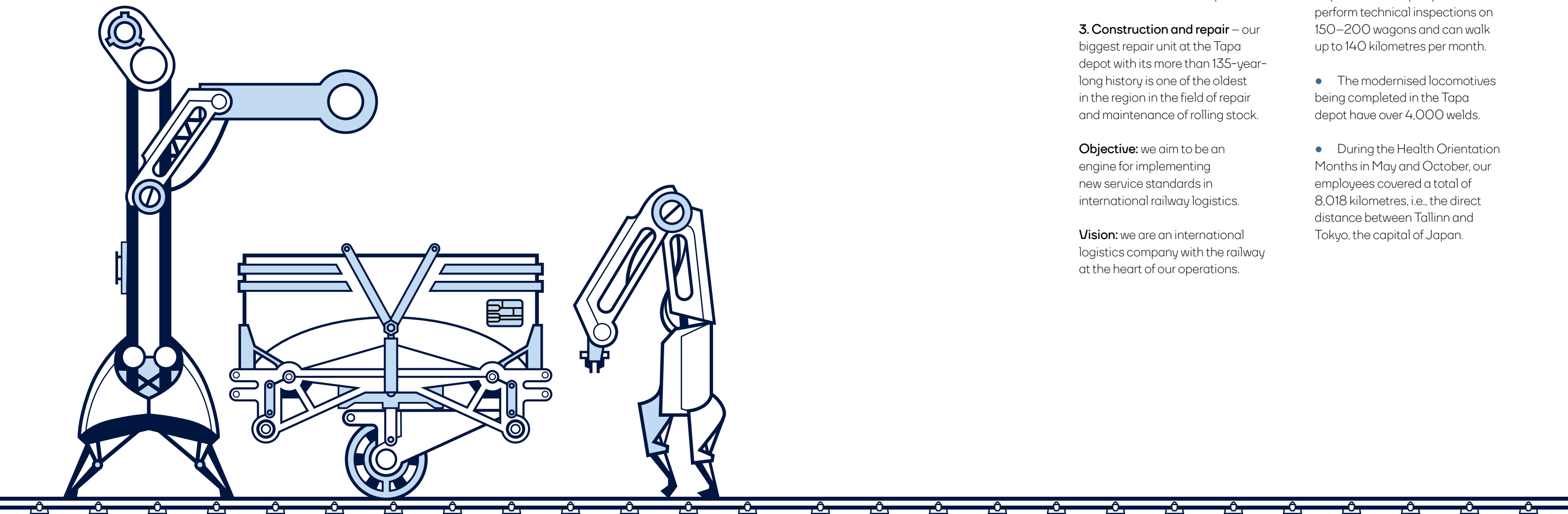
3. Construction and repair – our biggest repair unit at the Tapa depot with its more than 135-year-long history is one of the oldest in the region in the field of repair and maintenance of rolling stock.

Objective: we aim to be an engine for implementing new service standards in international railway logistics.

Vision: we are an international logistics company with the railway at the heart of our operations.

Interesting facts about Operail:

- We have three subsidiaries in Estonia and Finland.
- Our employees have worked for us for an average of 17 years.
- Our locomotives travelled 1,593,110 kilometres in 2020.
- In a 12-hour shift, our wagon inspectors and repair personnel perform technical inspections on 150–200 wagons and can walk up to 140 kilometres per month.
- The modernised locomotives being completed in the Tapa depot have over 4,000 welds.
- During the Health Orientation Months in May and October, our employees covered a total of 8,018 kilometres, i.e., the direct distance between Tallinn and Tokyo, the capital of Japan.



Address by the Chairman of the Management Board



Dear reader,

Not mentioning the coronavirus when talking about 2020 seems impossible. This pandemic affected each of us. It was easier for some and much harder for others.

The year was difficult, but most of the time, we were able to show very good results, better than we could have

expected. Troubling messages from around the world and the declaration of an emergency situation in Estonia on 12 March raised many questions for us: how does all this affect rail freight transport and the logistics sector as a whole? We decided to take a conservative stance. Luckily, it worked.

Despite the difficult times, we did very well and our company continues to be strong and viable. Thanks to the cooperation of our people, the virus could not paralyse our activities, although the challenge seemed to be impossible at times.

Safety is always the first priority on railways. As the virus spread, our security measures took on a new dimension. Our people were prudent and followed the rules – as a result, we were able to continue to serve customers in all our business areas. I would like to highlight the contribution of our frontline staff in keeping ourselves and others safe. Thank you!

In addition to the coronavirus, other important keywords in 2020 for Operail were Finnish freight transport, environmentally friendly solutions, and digital innovation.

In the last quarter of the year, we made history – we started offering freight transportation in foreign market. We did what no one believed could be done in spite of the coronavirus crisis and other obstacles. This significant step in the history of Estonian railways took place at the same time as the railway celebrated its 150th anniversary. We hope that we do not have

to wait another 150 years to conquer the next market.

Our mission to provide a safe and environmentally friendly logistics service took a big step last year – we removed almost 13,000 trucks from traffic. Road safety increased significantly and we were able to breathe cleaner air. We increased the volume of multimodal freight transport by a record 47%. When it comes to environmental protection, we do more than take goods from the road to the railway. We are looking for ways to use alternative energy sources for freight transport. Our Tapa depot's environmentally friendly innovation projects (modernisation of C30-M locomotives, construction of an LNG locomotive and a hydrogen locomotive) have attracted a lot of interest in the world and increased our reputation as a sustainable transport service provider and innovator in the railway sector.

There are still some activities in the field of railways with its long history, which, given the general technological developments in the world, are still carried out by prehistoric means. We want to change that! We have focused on the development of the digital railway and will make a major IT leap in the coming

years to simplify our day-to-day operations. In 2020, we signed a very important agreement for the introduction of a new freight transport information system. The aim is to provide a better customer experience and increase the efficiency of rail transport in the future. It is possible, we know it!

Being very closely involved with this field and the people working in it every day, I often think about how great the team at Operail is. Although 2020 was difficult, we managed to work well together, albeit separately from home offices. By working together, the goals have been achieved.

I am sincerely thankful to all customers, partners, and our employees! Let's continue to promote the Estonian railway sector together!

Respectfully,

Raul Toomsalu

Chairman of the Management Board

Support activities

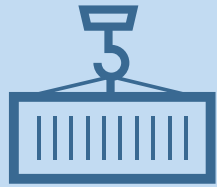
In its support activities, Operail follows the principle of supporting research and development activities that contribute to the achievement of the company's operating and financial objectives. We have also assumed a leading role in popularising the profession of railway employee and have supported various projects that promote the railway area as well as activities related to railway employees.

In 2020, we allocated 16,960 euros as support, of which 15,000 euros went to Eesti Muuseumiraudtee MTÜ, to ensure the preservation of the exhibits of the railway museum at Lavassaare, and 1,960 euros to Endiste Raudteelaste MTÜ, as our contribution to preparing a Christmas party for long-time railway employees.

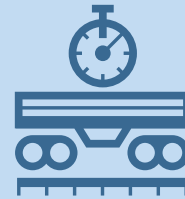
Operail's team helped clean up the territory of the Estonian Museum Railway at Lavassaare in the summer of 2020



Key results for 2020



11,2 million tonnes of freight transport volume
(2019: -15%)



2 191 wagons leased
(2019: -1%)



628 employees on average
(2019: 688)



0 incidents of non-compliance with laws and regulations
(2019: 0)



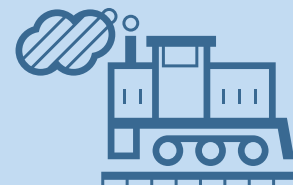
65,1 million euros worth of operating income
(2019: -14%)



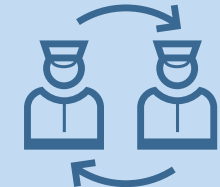
14,8 million euros EBITDA
(2019: -13%)



2,7 million euros worth of net profit
(2019: 9,6 million euros)



19 126 tonnes of greenhouse gas emissions as CO₂ equivalent¹
(2019: -18%)



1,8% voluntary turnover of employees
(2019: 4,9%)



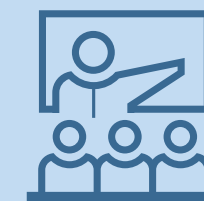
2 railway accidents involving Operail on public railroad infrastructure
(2019: 0)



29,5 million euros worth of investments
(2019: 45,2 million euros)



5/0 work accidents / incl. fatal
(2019: 3/0)



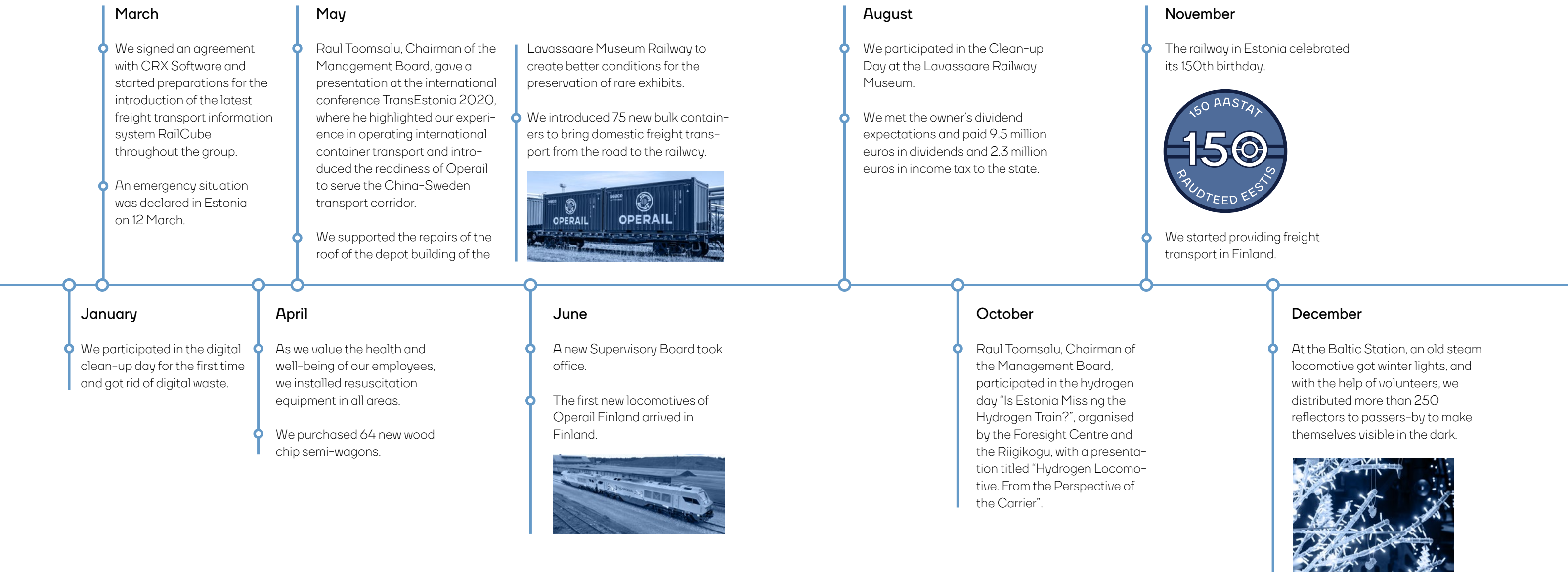
667 children and young adults who participated in railway safety training courses
(2019: 839)



9,5 million euros paid as dividends
(2019: 1,5 million euros)

¹ Includes data from the fuel consumption of the Freight Transport and Repair Business Unit.

Top events in 2020



ABOUT OPERAIL



Operating environment and trends in society

Railway sector employs more than 916,000 people.

The European railway sector employs more than 916,000 people and in 2018, more than 1.6 billion tonnes of goods were transported on the rail infrastructure of the European Union. Rail passenger transport and railway freight transport emit only 0.5% of the total greenhouse gas emissions of the transport sector. This makes rail transport one of the most sustainable modes of transport.

The total length of the Estonian railways is 2,164 km, of which 1,540 is public and 624 is non-public railway. The majority of the public railway (more than 1,200 km) is managed by the state enterprise AS Eesti Raudtee. Edelaraudtee AS manages the rest.

The Ministry of Economic Affairs and Communications, in cooperation with institutions in its area of administration, coordinates the development of the railway infrastructure, logistics, passenger and freight transport, and traffic and environmental safety. In Estonia, the Railways Act governs the railway sector.

Tallinn is the closest capital in the European Union to China, and Estonia is crossed by a

1,229-km-long 1,520-mm gauge public railway network which includes three border stations – Narva, Valga, and Koidula – through which we are connected with Russia and Asia as well as Latvia and Lithuania.

We are the key link in Estonian-related import and export trade, as well as in relation to intermodal freight in Estonia and between Estonia, Russia, China, and Scandinavia. We haul freight throughout Estonia and transport goods via the Estonian–Russian and Estonian–Latvian border points to the rest of Europe and Asia.

Since November 2020, Operail Finland Oy, part of the Operail Group, has been providing rail transport on the Finnish railway infrastructure. The Finnish railway system has a lot in common with Estonia, but at the same time, there are also several important differences. For example, the track gauge of the two neighbouring countries is very similar – 1,520 mm in Estonia and 1,524 mm in Finland. The total length of the railway of our northern neighbours is 5,926 km, of which more than half (55%) or 3,256 km is electrified.

While in Estonia, all infrastructure and traffic management is in the hands of the state-owned company Eesti Raudtee, then in Finland, these tasks are divided between two companies: Väylävirasto is responsible for railway infrastructure and the management of roads and ports, while traffic management is organised by Finrail.

The Finnish rail freight transport market is characterised by the predominance of one of the main carriers, the Finnish national rail freight transport company VR Transpoint. VR transports more than 95% of the freight volume of the public railway infrastructure in Finland. Other market participants include Fenniarail, a carrier with a smaller market share, and, from the last quarter of 2020, Operail Finland.

The development of the railway sector is currently guided by two key concepts: environmental sustainability and the implementation of digital solutions.

Clean transport

Emissions from the logistics sector account for a quarter of all EU



greenhouse gas emissions, and this share continues to grow. Achieving climate neutrality by 2050 requires a 90% reduction in transport emissions. Climate neutrality must be achieved through the joint contribution of the road, rail, air, and waterborne transport sectors.

Increasing rail freight volumes is critical to meeting the demand for sustainable transport and is an important part of the ambitious emissions reduction plan of Europe to achieve climate neutrality by 2050. One of the major aims of The European Green Deal, published

Operail Finland locomotive transporting freight on the route Vainikkala–Koverhar

by the European Commission, is to channel a significant proportion of road freight to trains and ships. Replacing road transport with rail containers will not only protect nature, but also help to increase road safety.

We can take steps at the local level to help achieve greater goals. We acknowledge the negative impact of the transport sector on the environment and are contributing to the reduction of greenhouse gases in the logistics sector. We have developed the domestic multimodal rail freight transport service and have thus been able to replace almost 13,000 freight truck journeys per year on the main roads of our country with the significantly safer and more environmentally friendly rail transport.

In order to increase the environmental protection of the logistics sector, we have started to bring innovation to locomotive construction. Although the use of liquefied natural gas (LNG) on shunting locomotives has been tested in neighbouring countries, we have set ourselves the goal of introducing the first LNG freight locomotive to the nearby region. Using an LNG locomotive saves at least 30% on fuel costs. In addition, it emits 20% less carbon dioxide and as much as 70% less sulphur dioxide than a diesel locomotive. The first LNG freight locomotive should start operating on the rails in 2021.

However, to minimise emissions from rail transport, new ways need to be found to better protect the environment around us. Considering the electrification plans of the state railway, the work performed on station and

customer roads must also be taken into account, and due to the lack of infrastructure, they cannot be done with an electric locomotive. These works could be done by a hydrogen locomotive.

Digitisation

The speed of movement of data and the digital storage of data are playing an increasingly important role in the logistics sector. Our major objective for the years ahead is the digitisation of freight operations. We have set a goal of implementing a new freight transport information system throughout the group, which will allow us to consolidate freight planning systems and operation, and create an integrated whole to offer a better customer experience and increase the efficiency of railway transport. We have already started the implementation of the new system by successfully implementing the RailCube information system in our Finnish freight transport. In Estonia, we plan to fully implement the new system during 2021.

With the new information system, we can digitise all data currently circulating on paper and reroute work processes to digital media. This will allow us to become more efficient and ensure smoother business processes and more effective everyday administration.

Global trends in the railway sector

Similarly to Operail, companies around the world are looking for ways of making railway transport cleaner and more efficient.

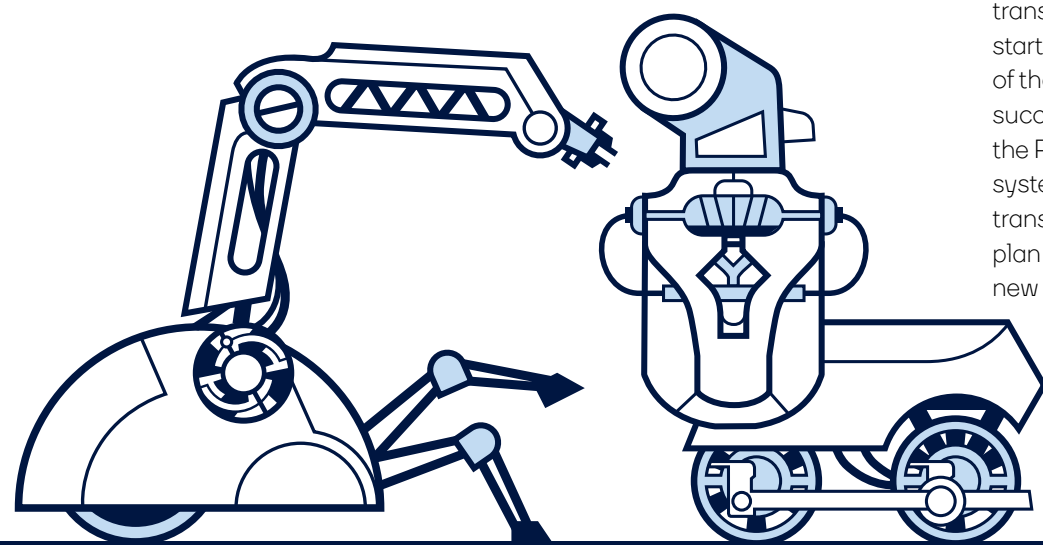
ATO (Automatic Train Operations) – for unmanned trains to be able to run on rails, they must be able to analyse the surrounding environment and assess the hazards. Building and developing machine vision for trains will be one of the biggest challenges for the sector in the coming years. Safety is always the most important thing on railways, and the introduction of innovations must first be based on ensuring safety. Therefore, engineers have to solve an important problem – how to

make the machine perceive its surroundings, analyse it, and act correctly in case of danger. Automated systems will certainly make our freight transport more efficient, and we are ready to be among the first to apply the new technology in the railway sector.

Interoperability of different railways and administrations. In order to make freight transport more efficient, it is important that any innovations that are added to the rolling stock or infrastructure of a particular company or country would fulfil their purpose in other countries as well. In Europe, the aim is to make the entire infrastructure of the transport corridor and the rolling stock there interoperable, which will increase transport speeds and increase rail efficiency. Our first goal is to integrate the various systems we use to operate freight – the introduction of RailCube allows just that.

Introduction of alternative fuels. In addition to efficiency, it is important to reduce the environmental impact of operations throughout

the logistics sector. The introduction of both LNG and hydrogen technologies can make rail transport even more environmentally friendly. The ultimate goal of zero emissions can be achieved, for example, with hydrogen: renewable natural resources, such as solar and wind energy, could be used to produce hydrogen. Hydrogen is considered an ecologically clean fuel as the production process does not release carbon dioxide into the environment. Hydrogen technology is poised to transform the railway sector and we are thus taking the first steps toward adopting the technology in Estonia.

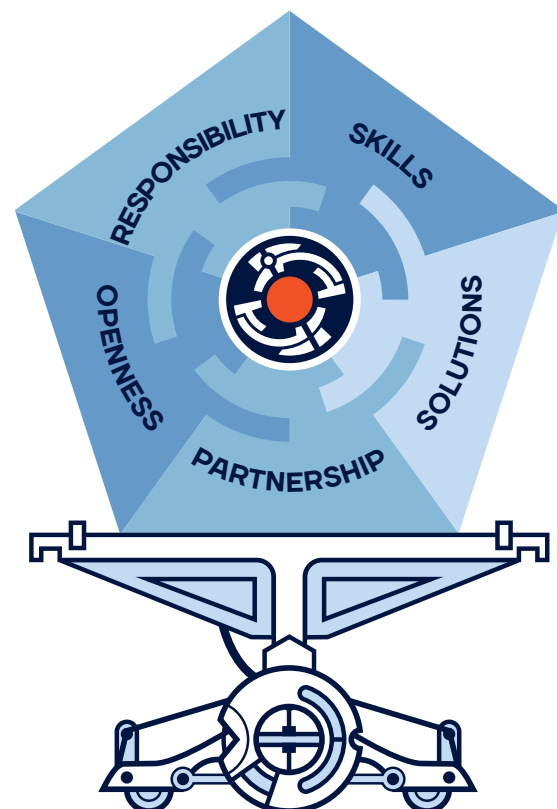


Vision

We are an international logistics company with the railway at the heart of our operations.

Values

Responsibility, skills, solutions, partnership, openness.



Mission

We offer environmentally friendly, cost-effective and safe logistics service. We are a responsible cooperation partner.

Objective

To be an engine for implementing new service standards in international railway logistics.

Operail's strategy

Owner expectations for AS Operail

Operail is an Estonian state-owned company. The state owns the railway company in order to have an efficient railway transport company that is independent of freight owners on the market with the goal of earning a profit and covering the risks related to its economic activity. The state aids the company as a profit-oriented transport undertaking to ensure the functioning and competitiveness of the railway market.

The Republic of Estonia holds shares in AS Operail for the purpose of earning income on the following considerations:

- the existence and preservation of the railway transport capacity (i.e., a sufficient and well-maintained locomotive fleet, crews and dispatcher service necessary for operations), capability for performing shunting work at hub and sorting stations;

- ensuring the performance of repair and maintenance of rolling stock, including extending the lifespan of wagons, leasing and rental of wagons, administration and management of wagons in the rental fleet of the railway administrations, and ensuring the regular repairs of the wagons in other 1,520 mm gauge fleets of the railway administrations;

- taking part in settlements related to international railway transport and in so-called integrated settlements (via the railway administration);

- ensuring the fulfilment of the functions of data entry/forwarder in all exchange of information in the field of wagon management and freight transport between railway administrations;

- fulfilling the carrier's transport obligation arising from the Agreement on Direct International Goods Transport by Rail (SMGS).

The owner considers it important for Operail to operate profitably on the open market and carry out its economic activity at an average risk level and with the optimum capital structure for a comparable sector.

The owner also expects Operail to ensure, in the medium term, that income grows proportionally faster than expenses and to guarantee efficient economic activity that would ensure the development of the company and income for the owner.

Fundamentals of Operail's strategy

In the European Union, railway traffic causes less than 0.5% of greenhouse gas emissions in the transport sector.



Loading of Operail's multimodal freight train in Tartu container terminal

Role and responsibility in society

Swift movement of goods is becoming increasingly relevant for clients as well as end users. At the same time, environment and climate discussions on both global and local level also play an important role. In the European Union, railway traffic causes less than 0.5% of greenhouse gas emissions in the transport sector. Railway transport is regarded as an opportunity to reduce the negative environmental impact of international freight transport, which means that

many countries are now focusing on the development of railway infrastructure.

The general development of the railway sector is currently mainly shaped by two key concepts: environmental sustainability and implementation of digital solutions. Enterprises around the world are on the lookout for ways of increasing the sustainability of freight transport and reducing climate impact in the transport sector, as well as developing convenient door-to-door services for the client (multimodality) and enhancing efficiency and customer experience through digital

solutions. The aim of the sector as a whole is to become more open, faster and even safer than before.

Responsibility is an integral part of our values and a cornerstone in fulfilling our mission. Responsibility helps us to achieve our business goals and make decisions that are aligned with global trends and changes.

We wish that, going further, our business activities and our economic environment in a wider sense would consider the natural environment and its resources. Operail's biggest responsibility in society is to deliver goods intact and on time, without inflicting damage to health or the environment.

Operail's responsibility in society relies on three pillars and is expressed in our everyday activities.

1. A service that ensures safety, high quality and low environmental impact – we increase the proportion of railway transport in the transport of goods, thus reducing the environmental impact of the transport sector and improving road safety.

2. Diverse, open and enriching organisational culture, and inclusive management – we develop and support our personnel, provide an inclusive and diverse working environment for them, and promote fair treatment.

3. A broader contribution to communities through raising awareness related to employment and rail safety – we hire and train local specialists and we wish to raise awareness of rail safety among ourselves, as well as our customers and cooperation partners, and we do our utmost to achieve this goal.

Historically, the railway sector has been rather closed and slow to change. In recent years, however, we have been making a real effort and introduced a great deal of innovation in the sector. This, in turn, has helped Operail evolve into a more open and innovative company, which also serves as a cornerstone for our upcoming development plans.

We can sense and feel the society's expectations on our shoulders and we know that the logistics sector of the future is cleaner and safer; in fact, we can

We can sense and feel the society's expectations on our shoulders and we know that the logistics sector of the future is cleaner and safer; in fact, we can have an impact on this through our own daily choices.

have an impact on this through our own daily choices. We have taken important steps towards embracing corporate social responsibility and we strive to be a spokesperson for the entire sector as a company who is seeking solutions that promote environmental conservation and sustainability. In 2019, we took on our shoulders the responsibility of endorsing the principles of corporate social responsibility, by setting a positive example ourselves and, in cooperation with other state enterprises, joining the respective agreement initiated and created by the Ministry of Economic Affairs

and Communications. But this is not all we have done.

In spring 2020, we mapped out our social responsibility influence areas – social and environmental sustainability and responsible management topics where our actions impact different interest groups, society at large, and the environment.

The priority topics were developed based on a process that involved mapping out Operail's current situation, international comparison of the sector, analysis of the expectations of interest groups,

and the visions of managers from involved sectors.

These are the topics that need our attention as we strive towards being a responsible and sustainable organisation. The most important influence areas form the basis of our social responsibility strategic directions.

The centre of our social responsibility strategic view is composed of four focus areas and a total of eight focus topics, the targeted development of which increases our positive impact in society in a responsible manner.

Operail's strategic goals

Our Management Board feels that the main strategic objectives that impact profit and capability for growth in the next few years are the following:

1. Expanding our existing business and making it more cost-effective;
2. Geographical expansion to reduce dependence on a single market;
3. Introduction of new services and products to create added value;
4. Raising the capital necessary for growth;
5. High-level governance.


We plan significant improvements in all business areas of the parent company, both financial and qualitative. The Freight Transport Business Unit focuses on maintaining and growing the existing transit volumes. One of the major challenges of the business unit in the coming years will be to replace the freight transport information system and digitise the data. The new freight transport information system will allow freight documents to be handled more efficiently, better planning of trains, and increasing customer satisfaction.

In recent years, the Repair Business Unit has significantly reduced the provision of wagon

repair services to foreign customers and instead has focused the resources freed up to higher value-added production.


In the Wagon Business Unit, we plan to use the workforce more efficiently. Likewise, the objective of the group is the international expansion to new markets.

Focus areas and topics of the social responsibility strategy




Environment and climate

- We reduce the carbon footprint generated by our activity.
- We develop services that increase the proportion of railway transport in freight transport.



Employees

- We increase Operail's attractiveness as an employer and improve the image of the rail sector as a whole.
- We diversify our staff.



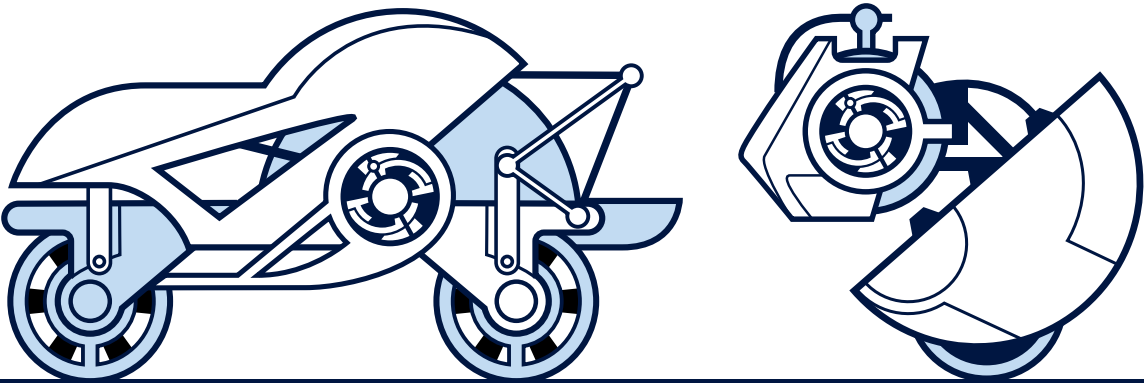
Safety

- We increase the level of rail safety both inside and outside of the company.
- We promote a culture of rail safety both within the company and among our customers and cooperation partners, and deliver the messages of rail safety to a wider public.



Management and relationships

- As a company, we are open, ethical and corruption free.
- We improve the quality of our service and increase our customer satisfaction.



Structure and management of the company

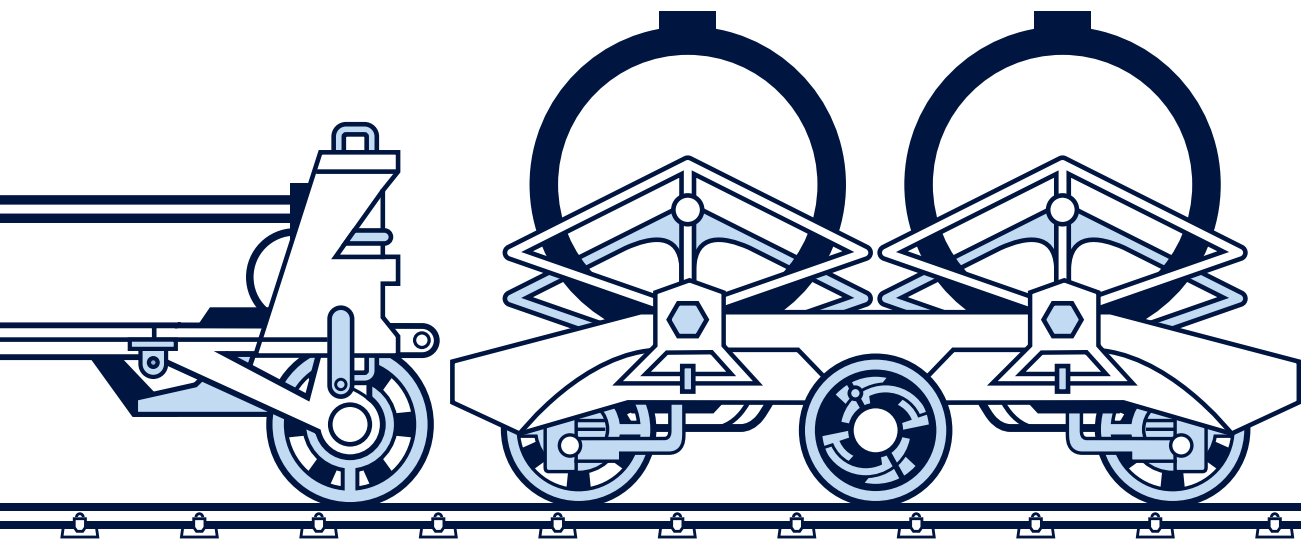
The owner of Operail Group is the Republic of Estonia and the group is under the jurisdiction of the Ministry of Economic Affairs and Communications. The management board is responsible for the executive management of the group. It is appointed by the supervisory board.

The company's board includes the Chairman of the Board Raul Toomsalu and Member of the Management Board Paul Priit Lukka.

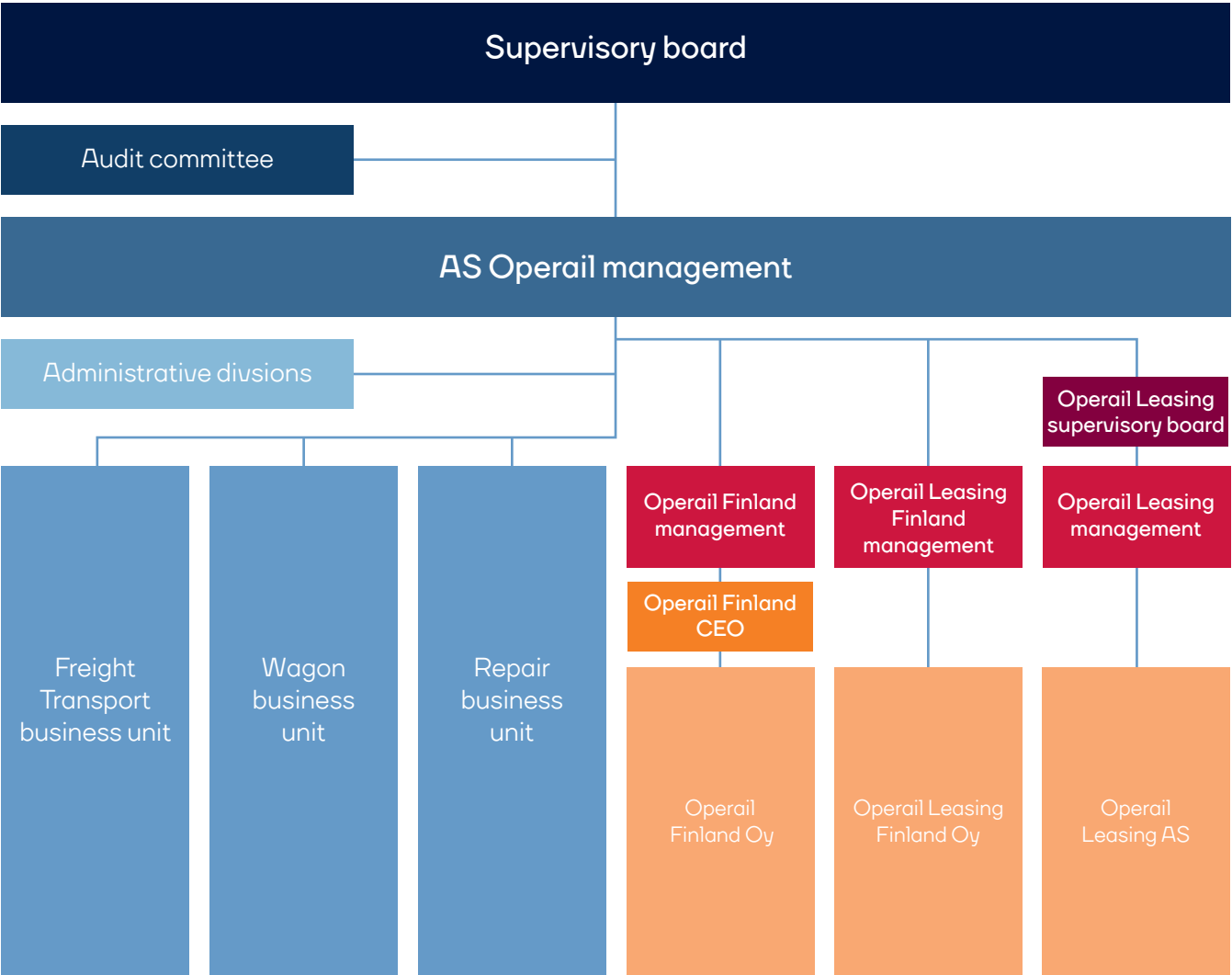
In addition to the parent company AS Operail, the group also includes the Finnish railway freight transport company Operail Finland Oy and the wagon rental companies Operail Leasing AS and Operail Leasing Finland Oy (all 100% subsidiaries to AS Operail).

The structure of the parent company is divided into three main areas of activity, and a separate business unit deals with each one: Freight Transport Business Unit, Wagon Business

Unit, and Repair Business Unit. The business units are supported by administrative divisions: analysis, ICT, human resources and marketing, safety, accounting, technology, legal, administrative and sales division.



Sturcture of the Operail Group*



*The Structure of the Operail Group changed in July 2021. The new structure can be found here.

Management board



Chairman of the Management Board Raul Toomsalu

Serving since 29 February 2016

Areas of responsibility: general management of the company's Freight Transport, Wagon and Repair business units; management of the supporting units (human resources and marketing, sales, technology, safety and legal), as well as public communication.

Previous experience: Raul Toomsalu previously worked as a technology adviser for a number of Russia-based manufacturers, and served as the director of the Russian office in the international Olam Group and the Trigon Agri agricultural group operating in Russia and Ukraine. In 2004-2008, he was the director of SEB Leasing in Russia, and later, as a member of the board of the Russia branch of the SEB Group, Toomsalu was at the helm of the corporate banking unit.



Member of the Management Board and CFO Paul Priit Lukka

Serving since 1 February 2013

Areas of responsibility: financial management of the company; general management of the analysis, accounting, ICT and administrative units; substituting for the Chairman of the Management Board. Management of the projects for Finnish freight, logistics and wagon rental; capital involvement.

Previous experience: Paul Priit Lukka was previously employed as the head of investments and asset management for Mandatum Life Insurance Baltic. In 2005-2007 he worked as an investment consultant at Danske Capital Finland / Amber Trust.

Supervisoy board

Chairman of the Supervisory Board Leon Jankelevitsh
Members of the Supervisory Board Indrek Gailan, Siret Liivamägi, Tarmo Porgand, Kaido Saar*

Guiding principles

We have a high regard for ethical and responsible business activity and expect all of our employees, customers and partners to operate in the same way.

Open structure and culture

In the last decade, the railway sector, which has historically tended to be closed and regulated, has been experiencing a great change toward openness. Our goal at Operail has likewise been to operate in an honest and law-abiding manner, while remaining transparent, innovative and always in search of more effective solutions. We are making concerted efforts to change the ethos inside the company to make it open to new solutions and support the objective of being customer centred and a good steward of the environment. This makes us strong and competitive as an organisation.

We also wish to reduce vertical management levels to become more flexible and increase responsibility for management decisions at every level. Cooperation between different departments and business units is of critical importance.

Operail's Tapa depot has an ISO 9001 quality control standard. Within the company, we monitor service quality and quality control by way of internal audits and analysis of customer complaints.

Corruption prevention

We have a high regard for ethical and responsible business activity and expect all of our employees, customers and partners to operate in the same way. We thus consider corruption prevention very important. Possible cases of corruption, abuse of position or other incidents related to violations and unethical conduct always mean a risk to reputation. Operail has zero tolerance for corruption.

In 2020, Operail did not have a single case of non-compliance with law or regulation that would have led to significant penalties or coercive measures for the company (2019: 0).

The main activities aimed at corruption prevention and increasing transparency in 2020 were:

- Creating Operail's action plan for corruption prevention;
- Analysing messages submitted via the anonymous report option on our homepage and taking respective actions;
- Using the purchasing environment Mercell;
- Establishing new regulations for avoidance of conflicts of interest;
- Organising a corruption avoidance training for the company's employees;
- A survey of preventive actions against corruption carried out by Ernst & Young Baltic AS;
- We also worked on our responsibility strategy. One of its key areas is open, ethical and corruption free management.

In March 2020, we approved a comprehensive code for avoidance of conflicts of interest, which is obligatory for all Operail

employees to hedge risks to the company's operating activity and reputation. The code is a framework document for ensuring our honest behaviour.

The code sets forth, among other things:

- Operail's good reputation and confidentiality;
- Avoidance of conflict of interest;
- Giving and receiving gifts and incentives;
- Participation in events;
- Declaration of personal economic interests.

To mitigate risks related to transactions, we have established a purchasing procedure to ensure thrifty and expedient use of the company's funds and equal treatment of all the interested parties, and transparency and traceability of procurements. Purchases of more than 10,000 euros must receive management board approval and, starting from 2019, we organise such purchases in the Mercell procurement environment.

All Operail employees who are able to influence the decisions made in regard to a customer or partner in a transaction and who have access to accounting data or relevant business information (a total of about 60 positions) file an annual declaration of economic interests.

In spring 2020, Operail's internal auditor Ernst & Young Baltic AS conducted a survey of preventative actions against corruption, and provided the following key conclusions:

- 87% of respondents find that the management style and actions taken by Operail's management express an attempt to reduce the risk of corruption and fraud in the company;
- Additional awareness-raising and training of employees on the topic needs the most work.

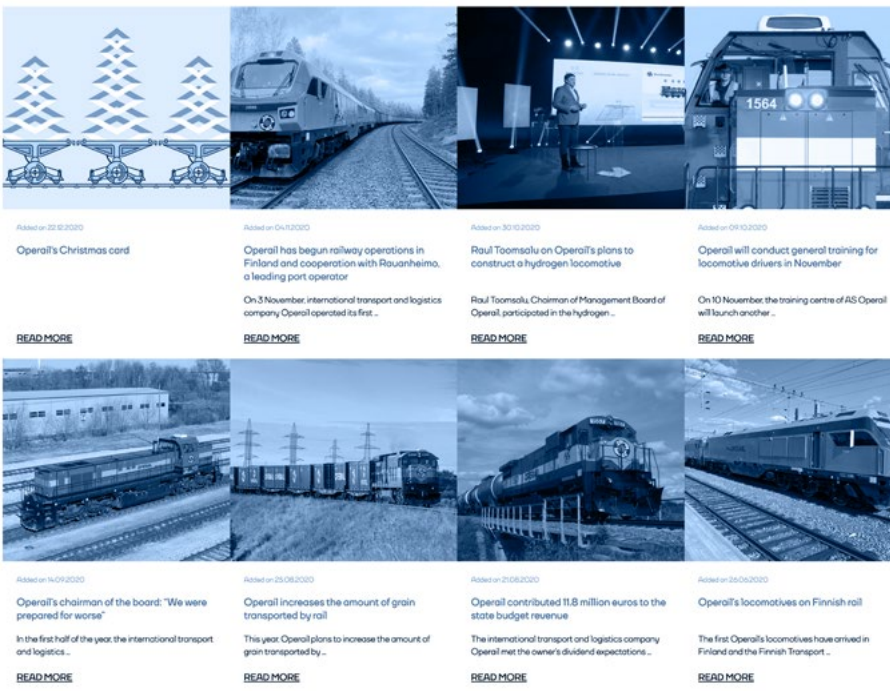
Open communication

One of Operail's most important values is openness. It means that our decisions are clear, our actions are purposeful and we are open as a company. We want

our communication between interest groups and the public to be direct, honest and transparent.

In 2020, we paid particular attention to open communication with our employees, customers, partners and the media. A large proportion of our communicative actions were coronavirus-related notifications both to our employees and customers. This presupposes the existence of channels for in-house and external communication and their strategic and consistent use and development.

Over the last few years we have recruited new heads of marketing and in-house and external communication, developed a new external website and maintained a regularly updated news stream on our website. We have also started publishing an in-house newsletter. We also developed the concept of operations for a virtual series of meetings Majandusfoorum (Economic Forum) with the aim of introducing Operail's quarterly economic performance and developments in key projects to our employees. Another important functionality of the Economic Forum is that



Operail news on the homepage

employees can pose questions that will be answered by our top management. To give our employees important personnel-related information, we created the regularly occurring series of meetings Personalipooltund (personnel half-hour), where employees from the Human Resources department tackle questions and topics related to personnel. The Safety department started organising

Safety Wednesdays in the Teams environment to provide an overview of the previous period's safety topics, and offer important practical advice.

The most important activities in 2020 for ensuring open communication:

- Regular media coverage (press releases, op-eds) of key developments for the company and for more deeper insight into important topics for Operail;

Risk management

- Posts in social media channels LinkedIn and Facebook, to support Operail's image as an employer;
- Sending out information over in-house channels (the in-house quarterly newsletter Igiliikur, intranet, informative emails and letters, newsletters);
- Informing our customers promptly of any important coronavirus-related changes in the company's work processes;
- Initiating and organising the series of internal meetings in the form of Economic Forum,

to provide quarterly information to the company's employees about Operail's economic progress, and responding to employees' questions;

- Organising personnel half-hours to clarify personnel-related questions and answer any questions employees may have;
- Conducting Safety Wednesdays to clarify safety-related topics and providing related advice.

We strive to be a valued thought leader and spokesperson in our

sector, and we make our thoughts heard about the future orientation of rail transport and, more generally, the transport of goods. This requires us to be internally prepared which is why our goal for the next few years is to train spokespersons who communicate smoothly with the public.



In 2020, Operail had an average of 628 employees, with each employee contributing to the success of the company

In our everyday work, we encounter risks – managing these risks is part of the business activities of the group. The identification and analysis of risks as well as having a systematic approach to the diversification of risks are some of the main components in achieving the strategic objectives of the group.

The Management Board bears overall responsibility for the development and supervision of the group's

risk management framework. The functioning system is supported by the company's Supervisory Board, Audit Committee and Internal Auditor.

Financial risks

Due to our international nature, we are exposed to certain financial risks, particularly currency, interest rate, credit, liquidity and capital risks. The

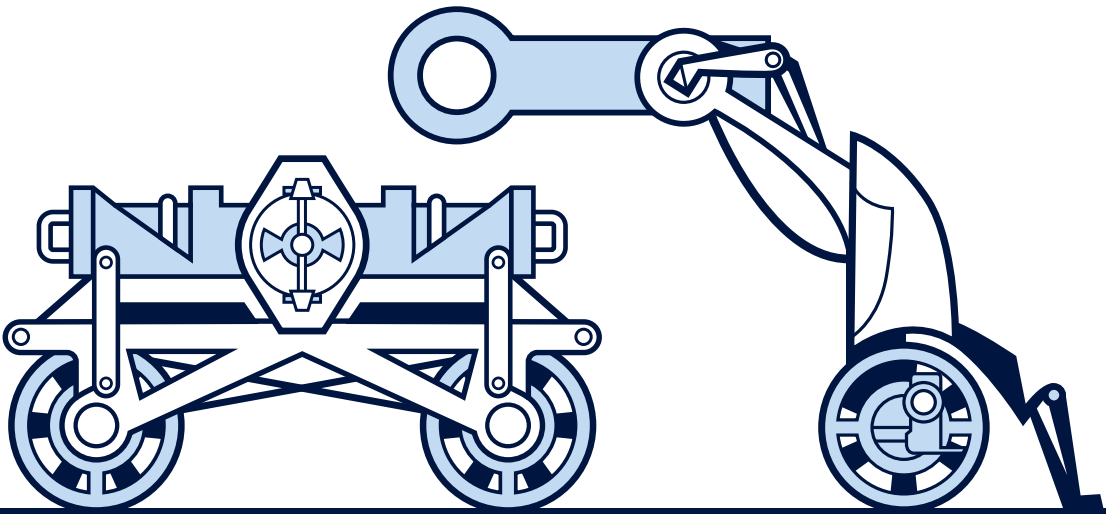
group's overall risk management programme focuses on the unpredictability of financial markets and strives to mitigate the possible negative effects thereof on the group's financial results. In order to diversify such risks, it is important to analyse the objectives, financial indicators and possible risk diversification instruments on an ongoing basis.

Market risks

Restrictions of or extraordinary disruptions in freight transport both in Estonia and abroad, competition and changes in customer behaviour are the main market risks that may influence our activities and the achievement of our objectives. In order to diversify these risks, it is important to diversify our business areas by offering a broader portfolio of services on the market and minimising the risk of decreased revenue in individual areas.

Operating risks

Our objective is to consistently offer freight transport services



and the rental, repair and modernisation of rolling stock on the international market. The main risks that may influence the achievement of our objectives include, above all, breakdowns and disruptions of information systems, quality problems and damage to rolling stock. In order to diversify these risks, we consider it important to constantly analyse our needs and use appropriate and up-to-date information systems.

The group's assets and liability are insured against unexpected damage as well as business disruptions and additional costs caused by an insured event, and any claims by third persons against the group. The insurance cover also includes damage deriving from the environment, crime risks, damage arising from the liability of the management (the Management Board, Supervisory Board and executive employees) as well as rolling stock and motor vehicle insurance against any accidents, theft and vandalism.

Ethics and corruption risks

Fraud and corruption risks are, above all, related to the embezzlement of the company's

property, making and accepting gifts, conflicts of interest or the dishonest conduct of customers. In order to diversify these risks, it is important to establish clear rules, ensure the transparency and proper execution of processes, increase the awareness of employees and cooperation partners, setting the example of having an open attitude and promoting a culture of reporting points of risk. Possible corruption cases, abuses of position or other incidents related to violations and unethical conduct may also entail a reputational risk.

Environmental and safety risks

Accidents in freight transport or at workplaces, leaks, contamination and the handling of hazardous waste are the main environmental and safety risks. The most important thing is to prevent crisis situations that endanger the environment and the health of people (including the technical maintenance of rolling stock, the awareness of the related parties and the public) and to ensure our readiness to act, should such situations arise (accidents, leaks of hazardous substances or other incidents).

The diversification of occupational safety risks is facilitated by the creation of a safe working environment, the increased awareness of employees and the development of a safety culture.



Modernisation of a C30-M locomotive at Operail's Tapa Depot

Such readiness is based on the existence of a crisis plan, the ability to promptly act together with cooperation partners and the awareness of our employees of their individual and collective roles. In transporting hazardous substances, we must take into account that customers also have to prepare the goods in accordance with requirements. The handling of hazardous waste in accordance with requirements is of great importance. The diversification of occupational safety risks is facilitated by the creation of a safe working environment, the increased

awareness of employees and the development of a safety culture, in order to ensure compliance with requirements and the use of safety equipment.

Employee-related risks

The main employment and personnel management risk involves our challenges in ensuring the availability of new, young employees. This is related to our ageing personnel, the low attractiveness of our area among the choices of profession, and

Operail's relatively new name in the labour market. We also have to take into account that special railway training has to be provided to employees on site at the company or by using international study options. We have to contribute to promoting our reputation as an employer, in order to ensure that our positions are always filled by highly qualified employees who are capable of contributing to the development of the company. On the other hand, we have to be a reliable and motivating employer for people, in order to keep personnel turnover low and increase work efficiency.

Cyber security risks

As Operail does not manage large quantities of customer data, our main focus is on protecting the data of our employees as well as strategic business information. We have to make sure that our information systems are resilient to external attacks and consistently operational and that our own employees do not have open access to delicate personal data or restricted documents.

SERVICE



Railway safety



Operail's wagon inspectors and repair personnel check the technical condition of all wagons in detail and, if necessary, perform initial repairs. A leaking wagon is a potential danger to the environment

Our number one priority is to ensure safety on the railways. We make efforts each and every day to keep our people and goods healthy and intact, to avoid safety incidents, and raise railway safety awareness in society.

Ensuring railway safety depends on the maintenance of rolling stock and infrastructure, the awareness of our personnel, the proper conduct of our customers and partners, other road users (drivers, pedestrians), as well

as the readiness to respond in the case of an accident. This means that safety is the result of a combination of the actions of different participants.

Ensuring safety and developing various safety measures is the responsibility of our safety department. The main hazards on the railway are collisions with road vehicles, other trains or people, technical malfunctions, derailments, obstacles blocking the railway, and spills of

hazardous goods. As a result of the risk mitigation measures we use, the likelihood of risks occurring and their consequences is low.

We are very pleased that in 2020, there were no serious accidents with casualties related to Operail's activity. There were a total of three accidents in 2020 (two of them on public railways; in 2019, there was one accident):

- A collision with a road vehicle through the fault of the driver;
- A collision of a locomotive with a wagon at low speed;
- A fire caused by the electrical system of a locomotive.

Risk management system

Due to the requirements arising from the regulation of the Minister of Economic Affairs and Communications, Operail has a valid railway undertaking's safety management system, according to which we have established the following:

- a safety policy and objectives and the measures to achieve them (reviewed annually);
- those responsible for ensuring safety;
- safety risk assessment procedures;
- the organisation of training;
- a contingency plan for accidents or incidents.

In addition, safety-related work is regulated by the Railways Act, which is proceeds from European Union regulations. The compliance of safety management systems with requirements is inspected by the Consumer Protection and Technical Regulatory Authority (TTJA).

In keeping with the goal of achieving an internally determined high safety culture, we have embarked on a comprehensive period of renewal in the safety management system, which includes all factors affecting safety throughout the organisation. One part of this is the establishment of golden safety rules in the company.

Our number one priority is to ensure safety on the railways.

In everyday practice, ensuring safety means working closely with Operail's safety department and cooperation between three business units.

Operail's golden rules of safety

Report any incident immediately to Operail's logistics employee and your immediate manager. In the case of depots, notify your immediate manager immediately.

Take action if you notice a threat in order to eliminate it. Do not put yourself in danger and inform your immediate manager.

Ensure your safety before commencing work.

Use personal protective equipment issued for safe work.

Be diligent and follow the current instructions and procedures when working. Do not make any concessions at the expense of safety.

Observe safety measures and remember that if something cannot be done safely, you have the right to refuse to do it until safe working conditions are guaranteed.

Operail's safety goals are:

- to minimise incidents that disrupt railway traffic and pose a risk to people or property;
- to plan and implement preventive measures based on the assessment of risks and risk areas for avoiding major accidents;
- to minimise railway accidents with harmful consequences to the environment and other railway accidents;
- to avoid or reduce health risks impacting employee health and safety.

In everyday practice, ensuring safety means working closely with Operail's safety and quality department and cooperation between three business units as follows.

1. The Freight Transport Business Unit ensures the training of locomotive drivers (including regular test drives, periodic in-house training courses) and the existence of the permits and certificates necessary for transport.

Example:

In 2020, 60 in-house trainings were organised for locomotive drivers and locomotive drivers' assistants in the Freight Transport Business Unit. The purpose of regular technical exercises is to address important safety issues and to reflect on and analyse incidents that have occurred in the previous period.

2. The Wagon Business Unit organises technical service for train assemblies, including decoupling repair.

Example:

When passing through Narva, Kohtla, Vaivara, Tapa, Ülemiste, Tartu, Koidula, Muuga and Maardu stations, a technical inspection of wagons takes place, where the wagon inspectors and repair personnel check the technical condition and documents of the wagons and, if necessary, conduct a brake test.

In case of major technical malfunctions, the wagon is decoupled from the train and the repair is performed immediately. If the wagon has a technical problem that can



The new C30-M cabin provides the driver with a wide view of the surrounding environment, which helps to detect potential hazards from afar

be resolved on the station siding, the repair is performed without decoupling the wagon.

3. The Repair Business Unit ensures that rolling stock undergoes depot repair and major repairs as well as the repair of individual parts.

Example:

The unit administers depots in Muuga and Tapa. The modernisation of locomotives and, if necessary, locomotive repairs are performed regularly.

Repairs are performed on wagons as required, plus depot repairs every three years, and a major overhaul every 12 years.

In case of accidents, we have the capability for a fast response and can assemble and dispatch to the scene an emergency team made up of our employees. The make-up of this team may vary depending on the nature of the accident and it can include employees from different business units.



Our Tapa depot repairs locomotives and wagons. The new C30-M locomotives are also built here, and this is where the development and construction of the LNG freight locomotive and the hydrogen locomotive is taking place

Awareness among employees and partners

We must ensure that our employees are competent, trained as required, and have undergone in-service trainings and briefings. Depending on their position, employees may need professional or qualification certificates or a licence for working on railway infrastructure. Locomotive drivers all have valid locomotive driving licences and certificates. Immediate managers are responsible for inspecting compliance with safety requirements.

Every position has guidelines for action in the case of a hazardous situation. We expect our subcontractors, customers, and

partners to abide by the safety requirements they are briefed on. We see our task as educating customers and partners as well to ensure that they are aware of the dangers as well as of preventive and precautionary measures. We also demand that customers implement a safety management system, including ensuring railway safety on their territory such as sidings in ports.

Preparedness and action in the case of accidents

Operail's business continuity risk analysis and plan describe the functioning of the emergency system. Actions in an accident are distributed into three phases:

- prevention: evaluating possibilities for the avoidance of risks and accidents, ensuring readiness;
- rescue operations: response and participation in rescue operations in cooperation with AS Eesti Raudtee, the Rescue Board, and other agencies;
- eliminating consequences: restoration of the pre-crisis situation, internal investigation, and improvements.

Cooperation for raising awareness on railway safety

We realise that the incidence of rail accidents can be minimised

only through raising general traffic safety awareness in society. We contribute to railway safety publicity campaigns in cooperation with MTÜ Operation Lifesaver Estonia (OLE), other railway companies, and government authorities. We have taken important steps for spreading railway safety messages and have provided training to employees who volunteer to be safety ambassadors and visit schools and preschools to talk about railway safety.

Activities during COVID-19

On 12 March, the Government of Estonia declared an emergency situation due to the global coronavirus pandemic. There are a number of positions at Operail involving tasks that cannot be performed from a distance, but which play a key role in ensuring the sustainable operation of the company. To reduce the risks of transmitting the virus at Operail, we reorganised our working shifts and introduced other measures, which helped to ensure the health and safety of our employees.

In brief, we have introduced the following measures against COVID-19:

- We inform our employees on a regular basis about the situation and instruct them on how to prevent and control the spread of the virus;
- We have varied the start and end times of shifts to minimise

contacts between people working in different shifts;

- We have promoted and encouraged remote working where possible, and supplied people doing stationary work with laptops and other IT devices to allow them to work from a distance;
- We dispensed more than 25,000 single-use face masks and 16,000 gloves;
- We implemented the habit of regular hand washing and using disinfectants – for that, we installed disinfection stations at our locations (10 stations in total) and used 750 litres of disinfectant for hands and 560 litres for surfaces;
- We installed posters at our locations informing employees of proper ways to wash hands and wear face masks.

To reduce the risks of transmitting the virus at Operail, we reorganised our working shifts and introduced other measures, which helped to ensure the health and safety of our employees.

Customer relations



Operail's locomotives covered a total of 1,593,110 kilometres in 2020

We offer our customers clean and safe logistics service at the best price to quality ratio. We are part of Estonia's integral transport corridor when it comes to transporting freight, with connections to ports as well as road transport. Logistics service is the product of cooperation between several parties.

Operail's freight transport customers include:

- Logistics companies (mainly freight forwarders) selling a comprehensive logistics package to their customers as a service along with freight services in ports and on the railway;

- Oil terminals and factories in Muuga, Paldiski, Sillamäe and Kohtla, which are Operail's customers through their own logistics companies;

- Manufacturing or trading companies.

The main goods transported by Operail are fertilisers, fuels, chemicals and, in the case of domestic transport, also timber, metal products and other types of goods. Fertilisers constitute about 57%, fuels 22%, chemicals 12% and other goods 9% of our freight volume.

Our customers appreciate:

- Price and stability – in our case, railway infrastructure usage fees have the most influence on this factor. The usage fees are determined by the Consumer Protection and Technical Regulatory Authority;
- Quality of service – including the speed and accuracy of transport, safety of goods, operative customer communication, and the railway as an environmentally clean mode of transport;

- Trustworthiness as a partner – we earn this reputation by ensuring stability, quality and long-term relations.

Customer experience plays a crucial role in offering the service and digitisation of railway freight transport. It undoubtedly allows efficiency and speed of service to be increased. In addition, we see that we should devote more attention to the following

in order to ensure customer satisfaction in the coming years:

- Speed of response to price queries and customer relations;
- Pricing;
- Finding flexible solutions to customers' requests;
- Finding the most efficient ways to organise freight transport.



Customers' goods are taken from the departure point to the destination by our hard-working locomotive drivers, who also ensure a safe and punctual train service

Cyber security

Throughout 2020, Operail's cyber protection measures prevented more than 13,000 attempted attacks.

As a responsible company, we pay attention to possible cyber security related risks and data protection requirements. We also perform risk analysis in order to identify bottlenecks.

Besides trade secrets and customer data, Operail's main data that need protection are related to personnel. We have applied all the mandatory rules, monitor the internal traffic in our information systems and apply various safety measures (principles of creating secure passwords, two-factor authentication of users, mandatory cyber hygiene training for all the employees, IT user training).

The global pandemic that hit in 2020 also considerably changed the use of information technology at Operail. While in previous years most of the computer work was done in a secure and well-defined office network, the transfer to teleworking due to the pandemic meant most computer users began to use their home WiFi networks. In order to ensure secure access to the necessary information systems and data, we performed a rapid introduction of VPN connections for all teleworkers in spring 2020. A VPN connection ensures a secure and encrypted data exchange with Operail's information systems.

The pandemic did not, however, cause cyber criminals to rest. Throughout 2020, Operail's cyber protection measures prevented more than 13,000 attempted attacks, the majority of which were phishing attacks. The attack attempts were notably more precisely targeted and better prepared, using public data about the company (e.g., the contact details of the heads of units and the Management Board available on the company's website).

We know that ensuring cyber security is an issue that we have to constantly work on.

Example

We implemented various security enhancing measures in 2020, such as the full introduction of MFA (multi-factor authentication), improved protection and traceability of cloud-based services, and many other things. With the help of our partner, we performed a security audit of our cloud-based services and implemented the proposals made in the course thereof to increase security.

Operail is a member of a cyber security roundtable, which includes larger logistics companies and where risks, experiences and new trends are discussed.

Innovation

The railway sector is not a global forerunner when it comes to digital solutions, automation and innovation. The same is true for Estonia's local railway sector. However, in recent years we have grown a great deal and are open to development, implementation and adoption of new solutions.

To facilitate innovation, we are actively participating in international conferences and fostering cooperation with universities and research institutions. Implementing changes often requires cooperation with other companies in the railway sector – for this purpose, we regularly participate in development projects and innovation discussions that unite companies in the field.

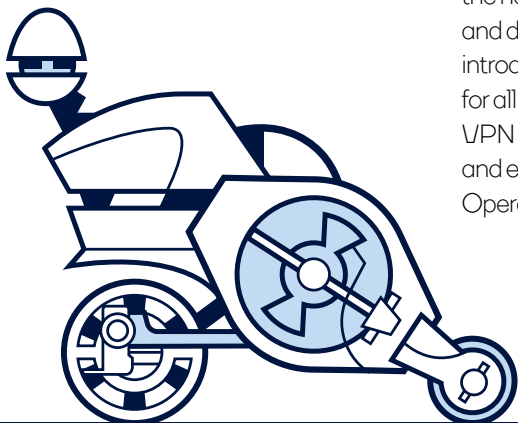
Furthermore, since autumn 2020, we have been a member of the innovation leaders' club, which brings together Estonia's most prominent innovation leaders. Their combined experience helps the entire local network to grow stronger. The aim of the club is to facilitate the emergence and growth of world class technology companies, and support their expansion to external markets. The innovation leaders' club was created by Tehnopol Science and Business Park along with the SEB

Innovation Centre. As a member of this club, we get access to best practices and can share our knowledge with other companies that prioritise innovation in their development. The priority of our development activities is to deal with automation and work processes and data digitization projects. The aim of digitisation is to collect and move all the data circulating in the company, and save it in digital form in such a way that the information stream is verifiable and fact-based.

The overarching goals for Operail's larger innovation projects are as follows:

- Introducing actions and processes to the systems (automating part of the work and directing people to do what the system cannot do), which would lead to commercial benefits;
- Consolidating knowledge based on experiences and information (historical information that can be used to make business decisions in future).

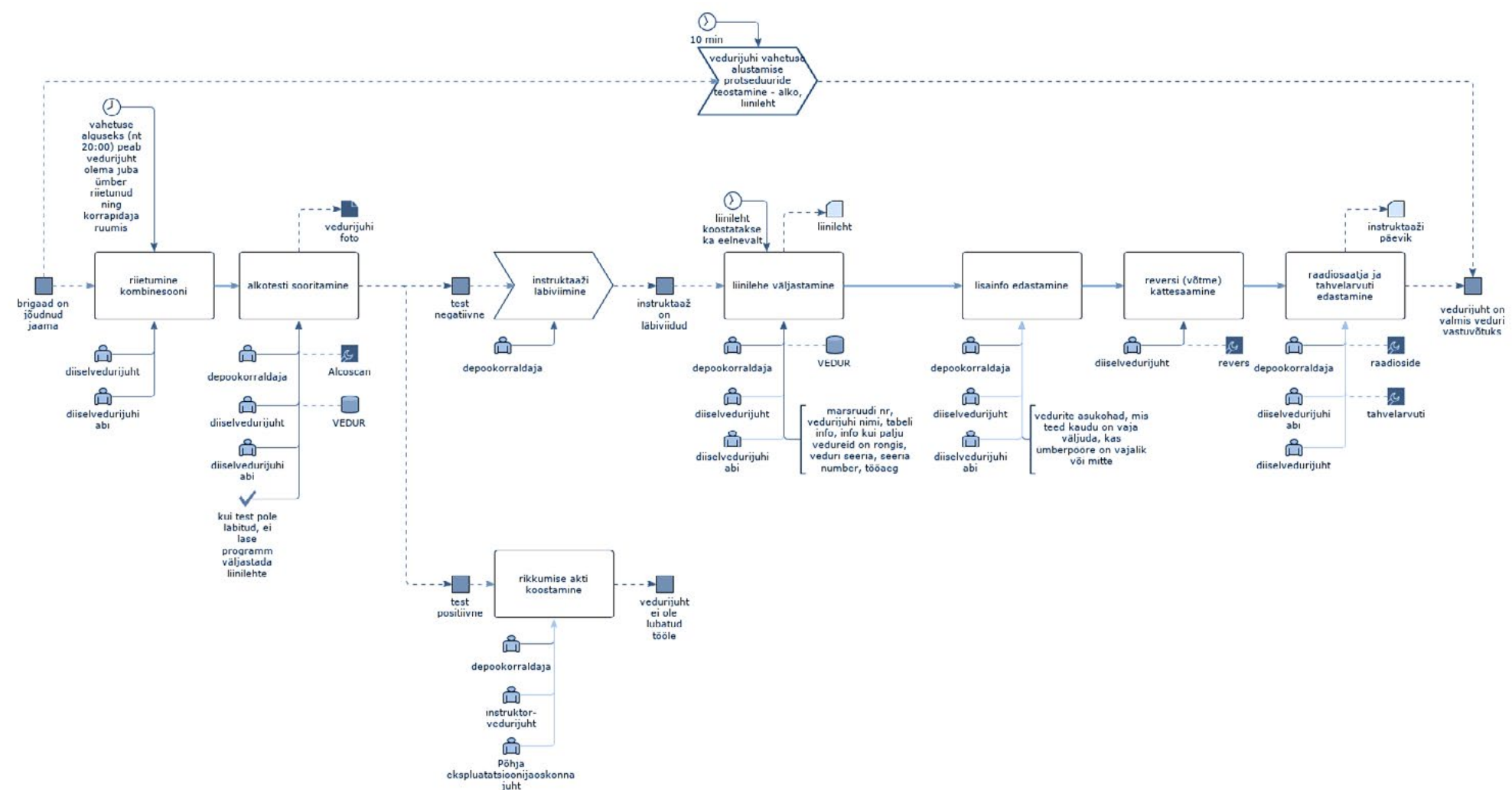
By doing so, we reduce the risk that manual labour and undocumented knowledge will be lost when there is a generational change.



Replacement of the information system of the Freight Transport Business Unit with a more modern and reliable one. We

BPM (Business Process Management). The aim of the project is to make process management in the company more efficient. In 2020, we started mapping processes and training in-house modellers

Single-person operation. In the past, freight train locomotives were always manned by a driver and an assistant driver. In autumn 2019, however, the first single-person departure took place. The locomotive driver is solely responsible for all of the necessary work procedures and safety. The goal of this new feature is to increase the efficiency of the Estonian railway sector. 2020 brought a significant change and in the second half of the year – 75% of all direct trains we operate were manned by only the driver.



ENVIRONMENTAL IMPACT



Environmental conservation and looking for new and energy-efficient solutions is of key importance for us.

Transport and logistics are one of the areas of activity with the greatest environmental impact. At Operail, we believe that it is important to make great efforts to avoid environmental harm. Similarly to companies all over the world in this sector, we are also looking for ways to reduce our environmental impact, including our carbon footprint.

The greatest environment impact and risk aspects of Operail are:

- fuel consumption and emissions into ambient air;
- transport of hazardous freight and possible spills from rolling stock;
- waste generated in the process of maintenance of locomotives.

Environmental conservation and looking for new and energy-efficient solutions is of key importance for us. It has a direct impact on the cost-effectiveness of the company, and it also strengthens competitiveness on the market.

In 2020, Operail did not have a single case of a nonconformity that led to a fine or precept (2019: 0).

Energy and fuel consumption


Our greatest direct environmental impact comes from fuel burned in internal combustion engines needed for rail freight operations. In 2020, Operail's vehicles consumed 7.14 million litres of fuel (2019:

8.75), the majority of which (7.07 million litres) was used for freight transport. The fuel consumption was 4.44 litres/km (2019: 3.95), which includes the total mileage of locomotives for freight traffic, management operations, shunting, and reserve travel.

In autumn 2019, we entered into an agreement with the Latvian company DiGas to develop the first LNG freight locomotive in our region. Converting the American General Electric C36 locomotive to dual-fuel (i.e., splitting the fuel tank between diesel and LNG) will result in fuel savings of at least 30%. The modified LNG freight locomotive will emit 20% less carbon dioxide and 70% less sulphur dioxide than a diesel one.

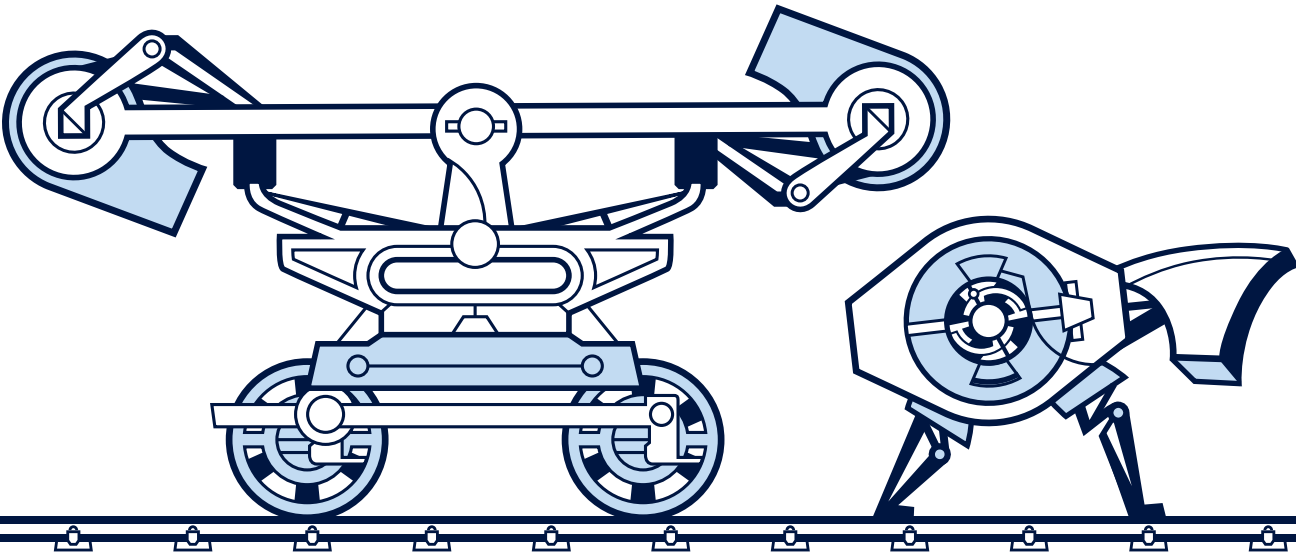
The construction of the first LNG freight locomotive in the nearby region was to start in 2020, but unfortunately, the emergency situation caused by the coronavirus both in Estonia and elsewhere in Europe forced us to change our plans. After overcoming the supply shortages caused by the coronavirus crisis, the construction of the locomotive started in the first

Fuel consumption


thousands of litres	2020	2019	2018
 Fuel consumption of the Freight	7 091	8 703	9 092
Transport Business Unit			
of which fuel consumption through use (diesel fuel)	7 065	8 669	9 060
of which fuel consumption for vehicles (diesel and petrol together)	26	34	32
Fuel consumption of the Wagon Business Unit	17	18	18
(diesel and petrol together)			
Fuel consumption of the Repair Business Unit	16	14	17
(diesel and petrol together)			
Fuel consumption of the vehicles of the Support Services	13	11	13
(diesel and petrol together)			
Total	7 137	8 746	9 140

quarter of 2021. After the end of the pilot testing period, we plan to implement the same technology for all locomotives that carry out line transport.

The LNG locomotive information systems save all information on fuel consumption and by analysing the data, it will be possible to increase savings even further.



Electricity consumed in 2020

	MWh	2020	2019	2018
	Freight Transport Business Unit	386	443	419
	Wagon Business Unit	441	531	586
	Repair Business Unit	1765	2 097	2551
	Support services	165	186	252
	Total	2757	3 257	3808

In the environmental management system, we have set the goal of reducing energy consumption.

In locations we own (Tartu loading lot and Tapa depot), we can track and reduce consumption, while in rental spaces, we depend on the lessor. To increase energy efficiency, we have done the following:

- replaced old light sources with more energy-efficient LED luminaires to improve and modernise working conditions;
- we are looking for various possibilities to use alternative

fuels to power locomotives (LNG, hydrogen).

Atmospheric emissions and climate change

Our primary emissions into ambient air consist of greenhouse gases emitted from the combustion of fuel used for freight transport.

We are actively engaged in finding solutions oriented to reducing emissions. To this end, we have launched the following projects:

1. We are modernising old locomotives and equipping them with more fuel-efficient engines. In addition, we are building the first LNG freight locomotive, which saves 30% on fuel and gives off 20% less carbon dioxide and 70% less sulphur dioxide;

2. We are taking our first steps for adopting the use of hydrogen technology in the Estonian railway sector.

To reduce emissions in the Estonian logistics sector more broadly, we have launched multimodal freight operations to reroute more of freight transport from roads to the railway. Railway transport is much cleaner than road transport. In 2020, we were able to prevent almost 13,000 truck journeys on the main roads of the country and rerouted goods to the railway, which is significantly more environmentally friendly.

We believe that hydrogen locomotives are the future of logistics. They will allow us to transform railway transport into a zero-emissions mode of transport. When using hydrogen as fuel, the only

by-product is pure water – no harmful substances are released into the ambient air when a hydrogen locomotive is used. In other respects, it has the same capabilities as a diesel engine.

Renewable natural resources such as solar and wind energy can be used to produce hydrogen. The hydrogen fuel production process does not give off carbon dioxide. This will definitely have an impact on the future of the railway sector.

Leaks and spills


As we often transport hazardous goods and use various chemicals for repair and maintenance, leaks and spills are one of our greatest environmental risks. In 2020, the transport of hazardous goods accounted for 70% of all goods, compared to 63% a year earlier. In 2020, we used 5,192 litres of chemicals at the Tapa depot, compared to 5,219 litres a year earlier.

The environmental risks in our locations are mainly related to our technical inspection points and depots where



Our multimodal freight transport brings more and more goods to the railways. We bring more than 60 commercial vehicles off the road with one container train weighing more than 1,000 tonnes

Direct greenhouse gas emissions in 2020

tonnes of CO2 equivalent	2020	2019	2018
 Freight Transport Business Unit	18 495	22 693	23 716
Repair Business Unit	641	737	792
Total	19 136	23 430	24 508

locomotives and wagons are repaired and maintained, meaning a risk of leakage.

We collect the waste generated in the course of locomotive maintenance (oil residues, oily rags, grey water) and hand it over to a certified waste handling partner.

Parking locomotives during the period between repairs is a risk area as well because the oil and lubricants used in locomotive operation may leak. To lower this risk, we use absorbent mats that soak up any spills so that it does not come into contact with the soil. As safety measures in our repair areas, we use oil wells and traps that catch any oily substances from the surface before the water reaches the sewerage system or deeper into the soil. Two leaks took place in freight transport in 2020 (2019: 4). Both leaks were insignificant (slight drips) and there was no risk of environmental contamination.

Waste

The waste generated mainly arises in the course of rolling stock repair and maintenance. In 2020, a total of 230 tonnes of waste was generated in depots (2019: 137), including 164 tonnes of hazardous waste (2019: 62). In 2020, the flotation equipment (oil and sand trap) of the Tapa depot was cleaned, as a result of which the amount of waste increased by almost 100 tonnes.

We recycled 10% of all waste through waste handlers. This share has grown strongly from year to year: the share was 6.6% in 2019 and 3% in 2018.

We are careful and observe the requirements when handling waste generated in the course of locomotive maintenance. With regard to hazardous waste, we cooperate with waste handling partners with the necessary licences. We want to be sure that the waste

is either removed or properly recycled. We sell waste that has a positive value and is appropriate for recycling (such as scrap metal) so that it can be used again.

We sort waste related to office work (papers, sensitive documents, IT tools) and we plan to introduce sorting of municipal waste both at the Tallinn headquarters and in other areas. We are implementing a new freight transport information system to reduce the amount of paper documents.

Noise and vibration

Train traffic causes a certain amount of noise and vibration. The noise caused by rolling stock and the loading of goods can be a nuisance for the inhabitants in the vicinity.

Local governments through whose territory the railway passes are looking for ways



of routing train traffic away from the city centres to disturb the residents less. Operail is ready for cooperation to move services that cause noise and vibration to the outskirts of cities.

When modernising Operail's C30-M locomotive, we will clean the General Electric C30-7Ai locomotive and leave only the main frame and chassis, to which we will add new modules

EMPLOYEES AND WORKING ENVIRONMENT



Overview of our workforce

Professional, experienced and development-oriented employees are Operail's greatest asset. The average number of employees at Operail in 2020 was 628. In Estonia, we are an important employer in several regions: 41% of our employees work in the greater Tallinn area, 24% in Tapa, 16% in Narva and its vicinity, and 19% in Southern Estonia (Tartu, Valga, Koidula and nearby stations).

As to employee diversity, we are aware that we operate in a field that historically and even now has a greater share of male employees. This also stems from the distribution of positions that have traditionally been considered male or female areas of activity.

For example, in the Freight Transport Business Unit, all of the nearly 190 locomotive drivers and assistant drivers are male, yet the same business unit employs 95 females who work in the field of freight transport regulations and documentation. In total, the employees of Operail amount to 73% of men and 27% of women. In leading positions, the division of men and women is similar: 77% and 23%, respectively, while among support service employees, the distribution of men and women is equal. Although the Estonia's population as a whole is ageing, Operail's business units are characterised by an even greater proportion of middle-aged and 50-plus employees compared to the general population due to the specific nature of the field

of operation. However, we can see that Operail's workforce is becoming more and more diverse in various business units. As an employer, we are open to this trend and see great potential in diversity.

The main focus of the human resources department has been and will continue to be on:

- Efficient work organisation;
- Promoting a values-based management and organisational culture;
- Facilitating two-way in-house communication;
- Activities necessary for ensuring future growth of personnel.

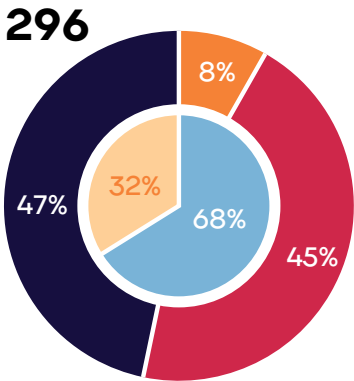
New generation of employees

Operail and the railway sector in general are characterised by the somewhat advanced average age of employees (48 years at Operail) and long seniority with the company (the average length of service at Operail is 17 years). Looking at the future, this trend is changing for a number of reasons: many employees are nearing retirement age, there are exciting developments occurring in the logistics sector, and the company is undergoing internal changes (structural development, generational change at managerial level, digitisation and innovation), which increase the attractiveness of the entire sector, including Operail as an employer. Still, we can expect that the average employee seniority in the railway logistics business will remain higher than average due to its specific nature and longer-than-average induction period, and indicate the strength of the organisation in retaining specialists in the field.

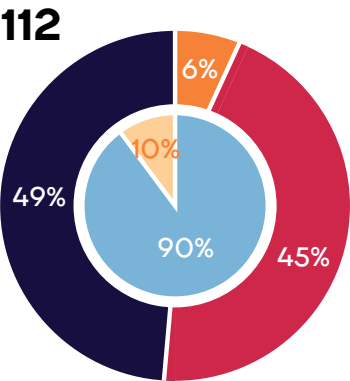
We realize that the historically closed nature of the railway sector and a lack of awareness of the field among young people are a significant risk when it comes to doing sustainable business. For this

Gender and age diversity

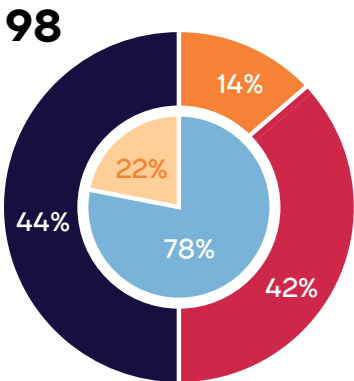
Freight Transport Business Unit
Number of employees



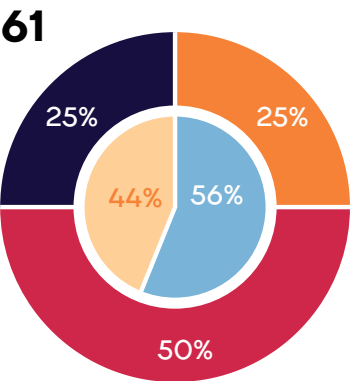
Wagon Business Unit
Number of employees



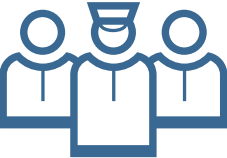
Repair Business Unit
Number of employees



Administration
Number of employees



Key personnel indicators

	2020	2019	2018
 Average number of employees, reduced to full-time equivalent	628	688	676
Number of new jobs added during the year	7	12	10
Voluntary turnover rate of employees	1,8%	4,9%	5,8%



We actively participate in trade fairs to find talented young people interested in the railway sector, and offer them internship opportunities at Operail

reason, we continue taking conscious steps to strengthen our image as an employer, introducing our company to the general public as well as to the younger generation, who might be our future employees. However, our attractiveness also depends on the sector's general development toward innovativeness. Digitisation is making work processes more efficient, creating the possibility to work smarter and a need for reappraising work processes and roles of positions. We are expending efforts to introduce jobs with new tasks to reinforce our position on the

logistics sector labour market with its specialised nature.

In recruiting personnel, we proceed from our own values and the principle that we need a collective of professionals in our field who are experienced and able to take the initiative in their field – people who are confident about their decision-making and follow through in executing their plans. We offer our employees great decision-making freedom to act and develop and, in many cases, also shape the field.

Training and development

The railway is a field where, due to the specific nature of the work, it is not possible to work in specialised positions without specialised training or a professional qualification or certificate. Estonian educational institutions do not teach all of the fields necessary on the railway. That is why we ourselves actively contribute to the development of current and future employees. It has become a tradition that each month technical training days take place in positions

If we are unable to find people with a suitable specialty or experience in working on the railway, we offer specialised training options ourselves.

related to the railway field, where we take a more in-depth approach to developing and maintaining specialised skills and safety matters.

Training and retraining of employees for specialised positions are strongly intertwined with our everyday work and examinations are also held. Since the people who work on the railway (including station employees, locomotive drivers, technical inspection point workers) must have professional certification, Operail also actively participates in the work of professional committees. The coronavirus crisis posed a number of serious challenges to the organisation of training, and it significantly changed the way we deliver training to our employees. Several training courses were conducted through digital channels. This change, in turn, highlighted even more the need to develop the digital skills of our employees.

In 2017, we opened our training centre on the basis of a permit from the Ministry of Education and Research. Currently locomotive drivers' certification education, in-service training

and other courses are held there. We also offer these training opportunities outside the company, including to our cooperation partners and customers. If we are unable to find people with a suitable specialty or experience in working on the railway, we offer specialised training options ourselves.

In establishing training plans, we proceed from specialised and company-wide development needs (the skills and knowledge we need to be able to develop in the future).

In 2020, we also focused on the following areas in addition to specialised needs:

- Development of digital skills;
- Development of in-house trainings and trainers;
- We started offering centrally organised language courses – our employees were able to study English and Finnish.

Organising and conducting training courses in 2020 was extremely challenging due to the coronavirus-related obligation

to reduce contacts and keep a distance. We updated our training plans and moved some training courses to digital platforms; the courses were held in smaller groups and even individually. Unfortunately, there were also several training courses we had to postpone.

Occupational safety and healthcare

Any activity on the railway always involves increased risks. To ensure a safe working environment, we adhere to all the established requirements. We determine the needs for improvement through conducting working environment risk analysis and eliciting suggestions. The most important factor in compliance with work safety requirements is the consistent training of employees and managers, and keeping topics in the focus. Advancement of safety culture is something we must be engaged with consistently.



The newly installed modular site accommodation has considerably improved local working and recreational conditions

In 2020, 5 occupational accidents were recorded in Operail (2019: 3). There were no occupational accidents resulting in death (2019: 0). At Operail, we follow the LTIFR YTD (lost time injury frequency rate year to date) index, which is widely used as one of the occupational safety indicators and describes the rate of accidents in lost time per annual working time. In 2020, LTIFR YTD was 4.54 (2019: 2.61).

The improvement of working conditions is important for us at Operail and we must continue to focus on this into the future.

In 2020, we invested more than 170,000 euros in improving the working conditions of our employees:

- We acquired and installed modular site accommodation for year-round use as working and recreational space

for our employees at the Vaivara, Kohtla and Tartu stations, thus considerably improving local working and recreational conditions;

- We committed to improving existing workspaces and working and recreational conditions;
- We renovated the recreational areas, wash rooms and offices at Muuga depot;
- We continued repair work on locomotive cabs to improve work conditions for locomotive drivers (we replaced windows, installed air conditioners and fitted microwave ovens). In 2020, we renovated 12 of the 85 locomotives owned by us (the project continues in 2021).

Healthy lifestyle

We also pay attention to promoting healthy living by supporting our employees' healthy lifestyle choices and physical activity. We provide a 100-euro allowance towards sports, rehabilitative care,

physical therapy, speech therapy or psychological counselling every quarter. We have also joined the Stebby health service platform and offer our employees a convenient and simple solution to apply for reimbursement of their sports activities. Instead of the sports allowance, Operail employees can also opt to use the Viveo Health solution. Similarly to covering sports' expenses, we pay 100 euros per quarter directly to each employee on the basis of an invoice from Viveo Health.

We facilitate and support participation in team sports events, such as:

- In the 2020 series of events to find the Estonia's most Sports-Minded Government Institution Operail's teams competed in volleyball, basketball and futsal tournaments (Operail achieved 2nd place among more than 20 participating institutions).

We encouraged people to be more physically active and organised a campaign in May and October inviting

We also pay attention to promoting healthy living by supporting our employees' healthy lifestyle choices and physical activity.



Our sporty team has been put to the test in different sports. In the photo: Operail's floorball team

people to move. All Operail employees were invited to join the campaign and record their sports activities in the Endomondo application. In two months, Operail's employees moved a total of 8,018 km – the direct distance from Tallinn to Tokyo, the capital of Japan.

In 2020, the number of days absent from work due to illness per employee was an average of 10.6 days (2019: 10.8), i.e., sick days made up 4.0% of all planned work days (2019: 4.3%).

Getting employees involved

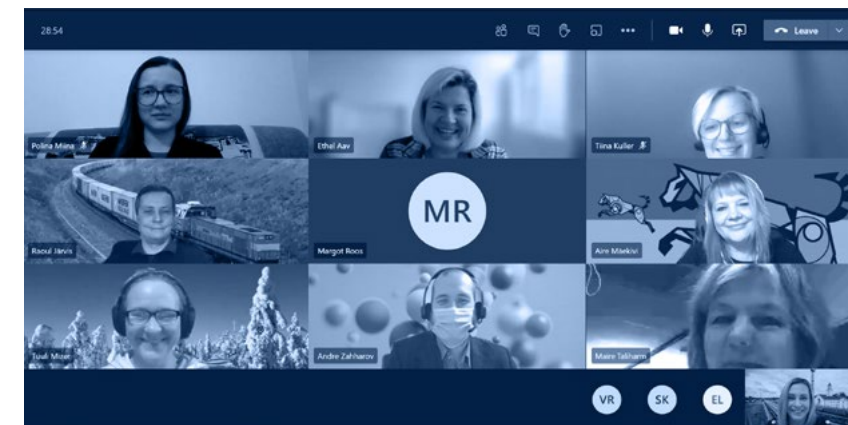
We have a high regard for open communication, and we value the views of each Operail employee. In recent years, we have paid significant attention to improving internal communication and have created different channels and opportunities for employees to express their views.

Our main channels for circulating internal information are the intranet, the bilingual quarterly in-house newsletter Igiliikur and information bulletins (in hard copy, if necessary). Local managers based in various locations all over Estonia also play an important role in disseminating information and involving employees.

The year of 2020 posed serious challenges in employee engagement, since the emergency situation declared due to the coronavirus crisis resulted in changes in our ways of working. Due to reduced work-related contacts and working from home offices, it became necessary to find new

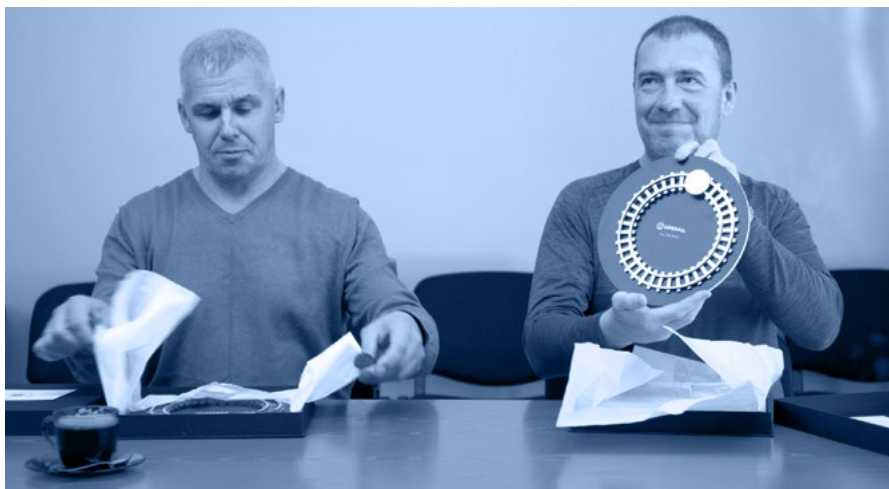
ways for employee involvement. In 2020, with the purpose of involving employees, we introduced some new initiatives:

- Economic Forum – a quarterly video meeting held in the Teams environment that focuses on the activities of Operail and its economic situation. During the meeting, the economic results of the previous quarter are summarised and discussed. In addition, the company's management answers employee questions and comments on important company-wide projects or questions.
- Personnel half-hour – regular video meetings held every two weeks in the Teams environment, which allow employees to pose questions to the head of the HR department and consultants.
- Home office coffee corner – during the weekly Teams meetings on Fridays, colleagues can catch up and talk about topics that are usually discussed in the office coffee corner. Since people have mostly been working from home, physical coffee machine chats have, unfortunately, not been an option.



Employees met in the home office coffee corner every Friday to engage in some "coffee corner talk"

- Railway Safety Wednesday – quarterly meetings in the Teams environment, during which the Safety Department gives an overview of safety issues at Operail and answers questions that have arisen among employees.
 - Personally thanking employees – managers have the chance to thank people for their daily contribution. The thank you message is accompanied with a small gift and a thank you note on the company's intranet.
 - Summer drawing competition for the children of Operail employees with a focus on the railway and railway safety.
 - A jury consisting of creative minds from Identity, our design partner, was brought together to select the best works. The selected drawings were published in Operail's social media channels and on the intranet.
- We also had to modify and adapt several initiatives that had previously been developed and had already become a tradition.
- An appreciation gala for thanking our employees. Instead of organising the traditional Operail appreciation gala, we thanked our outstanding employees and distributed awards to them in small groups. We also prepared a thank you



In 2020, for the first time, we issued the Golden Ring Award, with which we thank and recognise people who have made a special contribution to the benefit of Operail or done something special for us. The skilful actions of Stanislav Kurchavy and Arnold Provalski helped to quickly put out a fire on a moving locomotive

video, which was made available on the intranet for everyone to view. In addition, we issued a special edition of our in-house newsletter Igiliikur, which was dedicated to the recipients of the awards and safety ambassadors.

- At Christmas, we had to cancel the traditional team dinners. Instead, Santa Claus paid a visit to the joint virtual meetings of each Operail team, where the teams looked back on the year. Also, during each week of Advent, we presented a challenge that everyone was invited to participate in (creating a Christmas poem, Christmas quiz, etc.).

- Operail's strategy day, which was held in autumn, focused on corporate social responsibility. The organising team took all necessary measures to prevent the spread of the virus. Among other things, all participants were asked to take a coronavirus test.

Usually, the members of the management board (executive director, human resources manager) visit all of our locations in Estonia at least once a year to meet the employees face to face, give an overview of the progress of the company, and get acquainted with the worries and joys of different regions. In 2020, these meetings did not take place. Instead, employees were able to ask their questions and inquire about the progress of the company through new meeting formats.

53% of our employees belong to a trade union: either the Estonian Locomotive Workers' Trade Union or the Estonian Railwaymen's Trade Union. Relationships with employees, including pay and working conditions, are also regulated by a collective agreement with both unions, which covers all of our employees.

In 2020, no cases of employee discrimination were registered at Operail (2019: 0).

Remuneration and recognition

Operail uses both pay grades and individual remuneration, depending on the position. Remuneration is determined according to the nature of the role and not on the gender, nationality or other background details of the employee (other than the employee's competence in the field).

In 2020, the average salary in the Operail Group was 1,793 euros (2019: 1,425 euros). The main factor influencing the increase is related to Operail Finland's operations. We review salary levels once a year; negotiations over pay grades also take place with trade unions. To determine individual salaries, we divide the positions into work "families" and compare wage statistics with the situation on the labour market. To further motivate our employees, we have created a system of support, rewards and an additional holiday.

- We provide financial support to our employees on the occasion of certain life events: anniversary from 50th birthday, retirement, a child entering 1st grade, Mothers' Day, the birth of a child, Christmas, the funeral of an employee or their close relative.

- We also give monetary rewards to all of our employees upon the excellent economic performance of the company and business units, and for every five years worked at Operail.

- Our employees are entitled to an additional paid holiday based on seniority (starting from three full years worked at the company), and in the event of marriage, a family member's funeral and the birth of a child.

- We retain our employees' salary when they participate in donor days, we reimburse the cost of glasses for employees who use a computer monitor for work, and we cover expenses on sports activities to a certain amount for all employees.

In recognising employees, we have retained the tradition of presenting honorary badges to employees who have worked on

the railways for 10, 20, 30 or more years. At the annual appreciation gala held once a year, we give recognition to Operail's colleague of the year, best employees, "new energy" (i.e., a new employee who has best integrated in the team), active volunteers and safety ambassadors. We select the best project in the category of smart solutions, and the management bestows the special title of Golden Ring on those who have made a special contribution to Operail's prosperity or benefitted the company in some way. Depending on the events and objectives for the year, this list of categories may be longer.

The managers also have the opportunity to give their employees daily recognition by presenting them with a thank you gift and letting others know via the intranet.

ADDITIONAL CONTRIBUTION TO SOCIETY



Contribution to the development of the sector



The children of our employees at the safety training at Muuga station, one part of which was getting acquainted with the locomotive

Our activities have a social impact that is broader than merely offering services to customers. We help entrepreneurship and foreign trade to develop, are an important employer in regions, and contribute to the development of the logistics sector.

5 November 2020 was an important anniversary in the history of Estonian railways – exactly 150 years ago, the first railway section in Estonia, Paldiski–Tallinn–

Narva–Gatchina, was opened. 150 years later, to celebrate this event, an early morning ride on handcars on the Tallinn–Väike–Baltic Station took place with the participation of Estonian railway companies. The Operail team represented the company on the handcar ride and the subsequent open-air reception at the Baltic Station.

We aim to contribute to the development of the field and local communities, and as a result, we belong to selected networks, take part in initiatives, and actively participate in projects.

For example, we supported the organisation of the Battle for Tapa obstacle course to promote an active lifestyle in the Tapa rural municipality, where we have historically been an important employer. We gave the organisers one platform car to use, which the participants had to cross as one element of the competition. Two four-member teams from Operail also took part in the competition.

The Estonian Museum Railway in Lavassaare is a non-profit organisation that records and introduces the history of Estonian narrow-gauge railways. In addition,

the museum reflects the history of industrial and military railways in Estonia. The museum has more than 80 units of rolling stock and a considerable indoor exhibition. We value the long history of the railway sector and want to contribute to its introduction and preservation. Preserving the history of railways is important and also contributes to the further promotion of railways as a logistics channel and the introduction of railway-related jobs. We participated in the Clean-up Day of the Estonian Museum Railway. Nine volunteers from Operail took part in helping to clean up the museum and its territory.

In the summer of 2020, we had a rare opportunity to work with the My Dream Day fund which is based on volunteering. On a warm summer day at Tartu station, we fulfilled the dream of young Georg Andre – to ride in the cabin of a freight train.

My Dream Day is a voluntary organisation that makes the dreams of seriously or chronically ill children come true and helps to bring more joy to their lives and the lives of their loved ones.



My Dream Day in Tartu – Georg Andre in a locomotive cabin with his father

Membership

Our goal is to be an advocate in the Estonian logistics sector for everything having to do with freight transport. We look for the most sustainable transport solutions and try to educate our partners regarding not just the price and speed of the service, but also the importance of taking into account the environmental impact.

In cooperation with other companies, we develop the sector and the Estonian

economy by being a member of the following organisations:

- Operation Lifesaver Estonia;
- Federation of Estonian Engineering Industry;
- Logistics and Transit Association;
- Estonian Chamber of Commerce and Industry;
- Estonian Logistics and Freight Forwarding Association;

- Coordinating Council on Trans-Siberian Transportation;
- Estonian Human Resources Management Association PARE.

Promoting railway safety

With the help of Estonian railway companies, the main advocate for railway safety is MTÜ Operation Lifesaver Estonia (OLE), which regularly runs awareness-raising campaigns to increase railway safety.

Besides the fact that we have been members of OLE since its founding, we have also set an important goal of participating systematically and to a greater extent than ever before in raising awareness of railway safety in the society.

The contribution of Operail to increasing railway safety in 2020

We contributed to the following OLE publicity campaigns:

- Railway safety week, the main

message of which was 'Vaata vasakule ja vaata paremale ning lase rong läbi' (Look left and look right and let the train pass). During the week (11–17 May), the focus was on three main topics:

- information activities for children;
- dangerous activities when crossing the railway;
- responsible railway photography and filming.

- Christmas campaign 'Lase rong läbi – sind oodatakse jõuluks koju' (Let the train pass – your family wants you home for Christmas) to remind people that they should always make sure that crossing is safe when approaching the railway.

In addition, our safety ambassadors regularly give lectures on railway safety in kindergartens and schools located in areas where Operail is a major employer: in Tallinn, Tapa, Maardu, Narva, Tartu, Valga and Koidula border areas.

In 2020, nine of our employees volunteered to provide railway safety training for schoolchildren and kindergarteners (2019: 21).

During the year, we educated 667 children (2019: 839). These children also include the offspring of our own employees, for whom we conducted safety training in Tapa, Narva and Muuga. Unfortunately, many planned trainings and visits were cancelled due to the coronavirus.

In 2020, the focus was on raising awareness, and we will continue to do so in 2021. Our goal is to spread awareness of railway safety above all among children attending schools and kindergartens near railways and broadly throughout society.

We contributed to the completion of a new traffic safety virtual tour created by MTÜ Aga Mina, the Transport Administration (former Road Administration), and the Consumer Protection and Technical Regulatory Authority. In the interactive environment, it is possible to obtain a lot of important information about traffic and railway safety by using different media. The environment can be used as a useful learning material by teachers, and the created virtual solution also allows parents to analyse different traffic situations and discuss safe traffic with their child.

We have also looked for ways to promote safe traffic and increase a sense of security. For the Christmas of 2020, we placed a light installation next to the steam locomotive owned by Operail in Tallinn at the Baltic Station, the centre of which was a metal spruce tree where we placed reflectors and asked passers-by to take a reflector and place it in a visible place. A total of 250 reflectors found a new owner.

Cooperation with educational institutions

Estonia has a critical shortage of people who have studied the specific fields necessary to work on the railway. The main reason is the relative unpopularity of the logistics sector, which is considered old-fashioned, and the lack of the necessary specialties taught in the Estonian education system. To ease the situation and ensure a future pool of employees, we are doing our part to promote and popularise education in the field. We are cooperating on a logistics seminar organised for students at the Tallinn University of Applied Sciences and Võti Tulevikku



Operail's Christmas locomotive at the Baltic Station with a reflector tree

(Key to the Future), the career event of students of TalTech.

We believe that it is important to deal with popularising the railway sector simultaneously with promoting Operail itself as an employer. We have agreements in place for giving lectures, providing internships, and supervising the final theses at the Rakvere Vocational School, TalTech, and Tallinn University of Applied Sciences. In 2020, we offered an internship to five students

(2019: 6). Due to the coronavirus, there were periods when we could not offer internships. The demand for internships is greater than we can offer.

We are making an effort to make Operail a serious choice among youths looking for an internship and/or a place to work.

MANAGEMENT REPORT



2020 management report

Consolidated income statement

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

A brief summary of 2020 activities and results

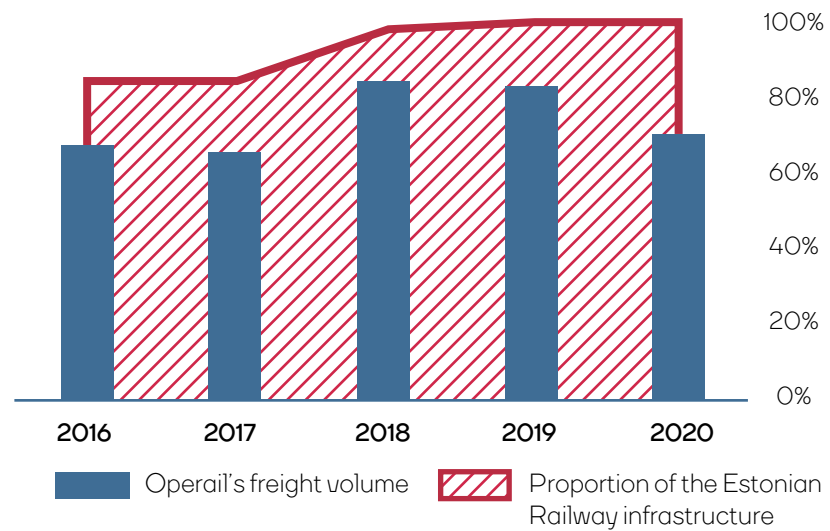
Freight transport

Market overview

We have long-standing experience in transporting different freight groups. Every day, we transport chemicals, fertilisers, oil products, oil shale, timber, grains, heavyweight and oversized technical equipment, bulk materials, palm oil, raw sugars and other consignments, such as transit, import, export and domestic.

Latvia, Lithuania and Finland are the main competitors of the Estonian railway transit corridor. In recent years, the development of Russia's ports has considerably influenced Estonia and the nearby countries. The Ust-Luga Port in the eastern part of the Gulf of Finland in Russia is the hub of Russia's transit trade and has largely replaced the previously used Baltic Sea ports.

Freight transport through Finland mainly runs by sea. An important Finnish transit corridor is made



up of the ports of Southern and Western Finland and the road and railroad network, and this creates a connection to Russia, which is the largest trading partner of Finland.

The Lithuanian transit corridor consists of the Kaliningrad section, which is oriented on Russian transit, and the Belarus section. The Port of Klaipeda is Lithuania's main gateway to the sea, located at a crossroads of an international transport corridor and connecting marine, road and

railway transport routes. As the Lithuanian railway transit corridor mainly carries goods from Belarus or Russia to Kaliningrad, the Lithuanian railway transit corridor is not comparable to those of other nearby countries.

Ship routes from Germany, the Netherlands or Belgium directly to Kaliningrad or Russian ports can be considered an alternative to the Baltic Sea transit corridor.

Similarly to Estonia, the Latvian freight transport companies also

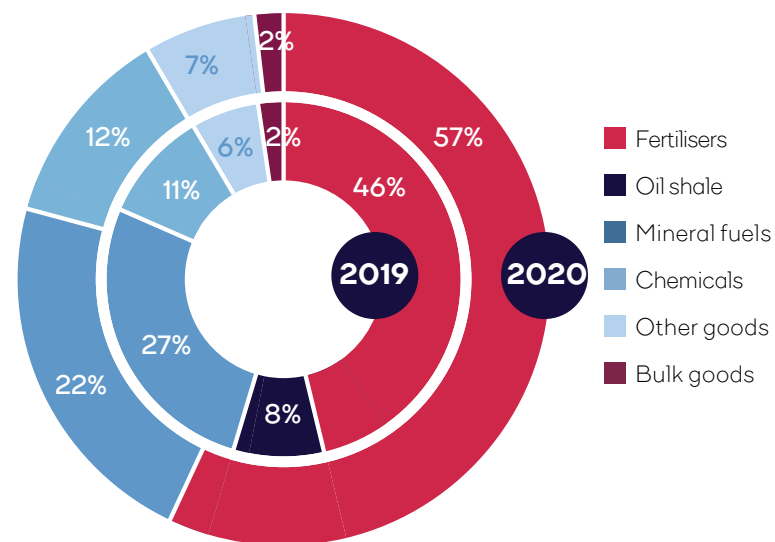
Wagon rental market

pay considerably higher charges than passenger transport companies, which thereby supports passenger transport. Finland's tariffs for passenger and freight transport companies are on a more equal level and several times lower than in Estonia or Latvia. Finland can apply lower tariffs due to state support for the use of the railway infrastructure. Considering the geographical placement of the countries, Latvia, Finland and Northwest Russia are the main competitors to the Estonian railway transit corridor. The primary advantage of these neighbouring countries over Estonia is the considerably lower cost of using the railway infrastructure.

The long-term objective of the business unit: to be the most preferred logistics partner in the north-south and east-west routes.

2020 results

Our freight transport volume in 2020 amounted to 11.2 million tonnes (2019: -15%). This made



Distribution of goods transported on the railway

up 100% of the total volumes transported on AS Eesti Raudtee infrastructure. Approximately 78% of freight was transit trade through Estonia. Similarly to previous years, the fertiliser goods group made up the largest transport volume with 6.4 million tonnes (2019: +5%). Fertilisers comprise Russian export handled as liquid and bulk cargo via the Sillamäe and

Muuga ports. Mineral fuels were the next important cargo by transport volume, amounting to 2.5 million tonnes (2019: -29%). The third largest group by freight volume was chemicals, the volume of which increased compared to 2019, amounting to 1.4 million tonnes (2019: +2%).



In 2020, Operail rented out more than 2,000 wagons

We entered the wagon rental market in 2016 when a significant shift took place in supply and demand and the rental prices grew considerably.

In 2020, the COVID-19 pandemic led to pressure on the wagon rental prices, as the volume of freight transport on the 1,520 mm gauge railway network decreased. At the end of 2020, the wagon fleet of Russia, the biggest market participant, included 1.20 million wagons (71% of the market volume) and the wagon fleet grew by 6% compared to 2019. Transport volumes on the Russian railway dropped by 3% compared to the previous year.

The long-term objective of the business unit: to be the most preferred railway rolling stock rental in the CEE and CIS markets.

2020 results

As at the end of the financial year, the group had rented out more than 1,000 wagons owned by AS Operail (2019: -9%), more than 900 wagons owned by AS Operail Leasing (2019: -4%) and nearly 200 wagons owned by Operail Leasing Finland Oy (2019: +178%), with more than 2,000 wagons rented out in total (2019: -1%).

Repair and modernisation

Slightly over a thousand companies have been certified by the 1520 Railway Council. These companies provide repair services or produce rolling stock and spare parts for 1,520 mm gauge railways. Estonian freight wagon owners own about 12,000 wagons, of which 2,000 are used in Estonia and the rest operate primarily in Kazakhstan, Ukraine, and Russia.

We maintain, inspect, and repair wagons and locomotives, and offer this service to our customers. We carry out repairs of wagons and locomotives mainly at the Tapa depot, which, with its almost 140-year history, is one of the oldest companies engaged in the repair and maintenance of rolling stock on the entire 1,520 mm gauge railway. We also perform maintenance, inspection and repair of locomotives on a smaller scale at the Muuga depot.

Our locomotive fleet has over 80 locomotives, the majority of which were built in the 1980s. Major overhauls of ageing locomotives are not economically expedient; instead, we have started rebuilding old C30-type General Electric



The new C30-M locomotives built at the Operail Tapa depot serve freight transport both in Estonia and in foreign markets, such as Ukraine

locomotives. The C30-M locomotives rebuilt in Tapa meet all requirements and are certified for use in the EU. A six-axle locomotive weighs 138 tonnes, the axle load is thus 23 tonnes, and it has an AC/DC electrical transmission. The locomotive has a Caterpillar 3512C HD diesel engine rated at 1550 kW (2,079 hp) and has a top speed of 100 km/h. The speed limit for freight trains in Estonia is 80 km/h.

Long-term goal of the business unit: to become an innovative rolling stock development company.

Results of 2020

In 2020, we carried out three and started lifting repairs of three C36 locomotives, completed the modernisation of two C30-M locomotives, continued the modernisation of four locomotives, and started the reconstruction of six locomotives. By the end of 2020, five new C30-M locomotives had been completed. We performed 601 scheduled locomotive repairs and 371 unscheduled locomotive repairs. We also performed 22 scheduled wagon repairs and formed 280 pairs of wheels.

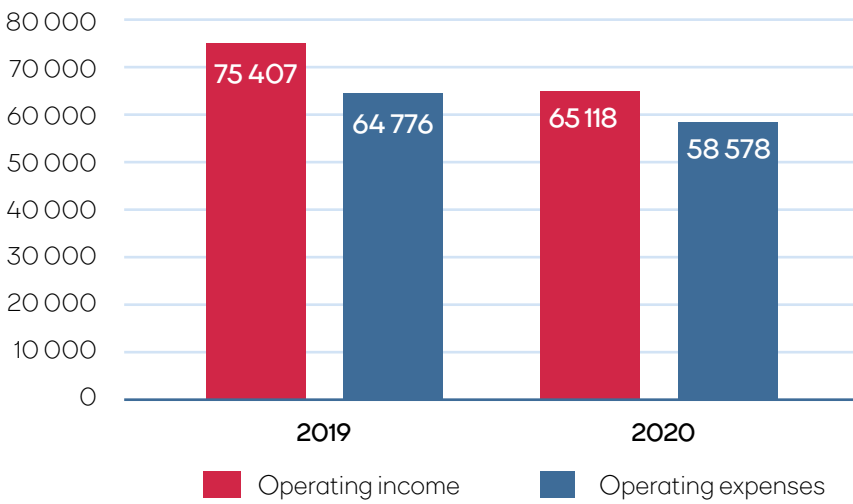
Economic results

Income and expenses

The group's 2020 operating income amounted to a total of 65.1 million euros (2019: -14%). Income from freight transport decreased by 17%, to 36.8 million euros, in connection with smaller freight transport volumes. Wagon-related income increased by 75%, amounting to 16 million euros. Most of the growth in wagon-related income came from the commencement of activities in the Finnish market. Wagon rental income grew to 14.7 million euros (2019: +14%) and inventory fleet usage fees decreased to 1.3 million euros (2019: -35%). Other operating income dropped to 2.5 million euros (2019: -36%), mostly due to the decreased sales of non-current assets (depreciated wagons and locomotives) and stocks (wheel discs).

The group's operating expenses decreased to 58,578 thousand euros (2019: -10%). The decrease in operating expenses was caused by a decrease in the infrastructure usage fees, fuel consumption and the inventory fleet wagon usage fees.

Operating income and expenses



The expenditure on infrastructure usage fees decreased by 23% due to smaller freight transport volumes (net tonne/kilometre 2019: -18%). Usage fees paid amounted to 15.9 million euros. Fuel expenses amounted to 6.4 million euros (2019: -31%). Fuel expenses decreased due to smaller freight transport volumes and the reduction of excise duty rates on diesel fuel. Depreciation grew to 8.3 million euros (2019: +30%) due to an increase in non-current assets (Finnish

locomotives, C-30M modernised locomotives, wagons).

Labour expenses amounted to 16.8 million euros in the financial year (2019: +6%). As at the end of 2020, the group had 578 employees (2019: 678). The number of employees decreased due to the reorganisation of the activities of the Freight Transport Business Unit. The average gross salary of the employees increased in 2020, amounting to 1,793 euros a month (2019: 1,425 euros).

2021 prospects

Profitability

The group's operating profit before depreciation (EBITDA) amounted to 14.8 million euros in the financial year (2019: -13%). The group's operating profit was 6.6 million euros (2019: -38%). The group's interest expenses grew by 64% due to an increase in the loan volume, amounting to 1.5 million euros. Income tax expense was 2.3 million euros (2019: 0.4 million euros) and the group paid 9.5 million euros in dividends in 2020 (2019: 1.5 million euros). The net profit of the financial year amounted to 2.7 million euros (2019: 9.6 million euros).

to 8.9 million euros (2019: 4.6 million euros). An increase in investments and the loan burden has increased the net debt and EBITDA ratio. As at the end of 2020, the group's net debt amounted to 76.2 million euros (2019: 72.8 million euros) and the net debt to EBITDA ratio was 5.1 (2019: 4.3). The net debt to equity capital ratio was 101% at the end of the reporting period (2019: 121%).

The group is primarily exposed to changes in the exchange rates of the Swiss franc, the US dollar and the Russian rouble. In order to hedge currency risks, most of the

contracts are concluded in euros and foreign currency receipts and payments are balanced, if possible. In other cases, derivative instruments are used.

Dividends

The group paid 9.5 million euros in dividends in the financial year of 2020 (2019: 1.5 million euros). The payment of dividends is decided by the group's general meeting in the person of the Minister of Economic Affairs and Communication.

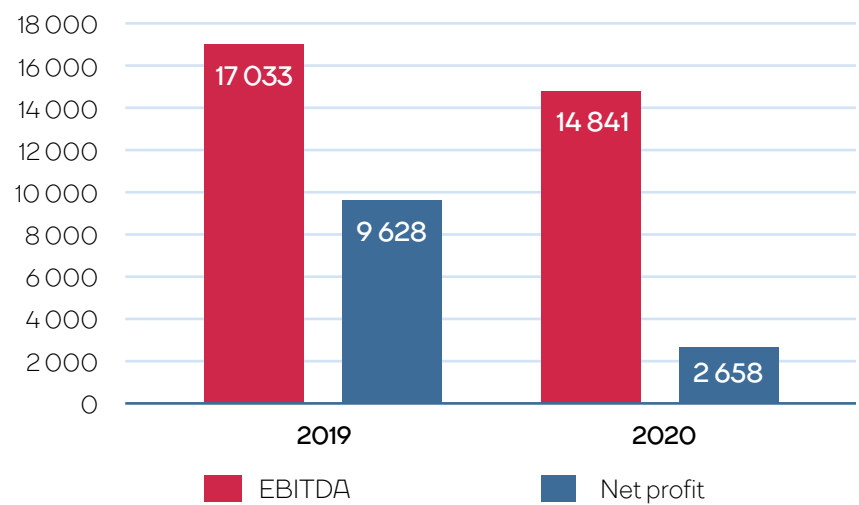


Investments

The Operail Group invested 29.5 million euros in 2020 (2019: 45.2 million euros). The main investment included: Finnish line locomotives (13.5 million euros), the modernisation of C30-M locomotives (5.9 million euros), new rental wagons (4.2 million euros) and the major repairs of rolling stock (2 million euros).

As at the balance sheet date, the group's liquid funds amounted

EBITDA and net profit



Freight transport

The group forecasts a 20% increase in freight volumes for 2021, mainly stemming from an increase in the Finnish freight transport volume as well as the volume of fuel and chemicals.

Wagon rental market

Market prices are expected to stabilise in the wagon rental market. We plan to increase investments into the wagon fleet compared to previous years, in order to prevent a decrease in rental income due to the end of the useful life of older wagons. With regard to wagon rental income, we will strive to maintain the level of the previous year in 2021, but the dispatch and revenue of the joint fleet wagons will be lower in 2021 than in the previous year.

Repairs

We will focus on the modernisation and repairs of locomotives, providing repair services for cargo wagons to a small extent in 2021.

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