

# OPERA IL

## Yearbook 2019



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# OPERAIL

## Yearbook

### 2019

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 railway vehicles. We have nearly 150 years of experience and employ 700 people across Estonia.





# INTRODUCTION





Beginning of financial year:	1 January 2019
End of financial year:	31 December 2019
Name of company:	AS Operail
Commercial Register code:	11575850
Registered office:	Metalli 3, 10615 Tallinn, Estonia
Telephone:	+372 615 7600
E-mail:	info@operail.com
Website:	www.operail.com
Principal activities:	organising railway transport
Management Board:	Raul Toomsalu, Paul Priit Lukka
Supervisory Board:	Kuldar Leis, Madis Ermo, Peeter Kadarik, Ahti Kuningas (until 01.11.2019) and Indrek Gailan (from 21.11.2019)*
Auditor:	AS PricewaterhouseCoopers

# Operail in brief

## Our business areas

- 1. Freight transport**

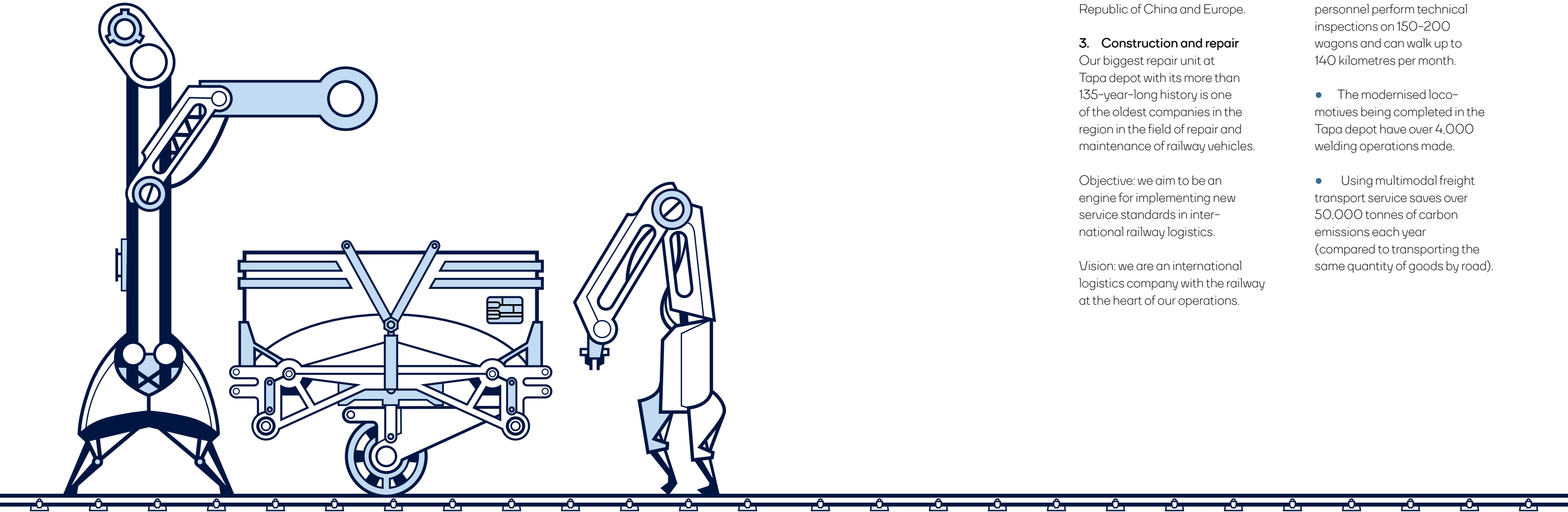
We have longstanding experience in transporting different groups of goods by rail, we handle transit goods and carry international and domestic Estonian freight.
- 2. Wagon rental**

Our wagons move goods via the 1,520 mm gauge railway network and successfully service trade between the People's Republic of China and Europe.
- 3. Construction and repair**

Our biggest repair unit at Tapa depot with its more than 135-year-long history is one of the oldest companies in the region in the field of repair and maintenance of railway vehicles.
- 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 2,194,415 kilometres in 2019.
  - In a shift of 12 hours, 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 welding operations made.
  - Using multimodal freight transport service saves over 50,000 tonnes of carbon emissions each year (compared to transporting the same quantity of goods by road).



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\* Operail advisory board as of 01.06.2020:

Indrek Gailan, Leon Jankelevitsh, Siret Liivamägi, Tarmo Porgand, Kaido Saar



# Address by the Chairman of the Management Board



Dear reader,

This is our first ever yearbook. When we, with our collective, started the reorganisation of a company which is incredibly important for Estonia and boasts a long-standing history with the aim of better adjusting to the changing world in 2016, we could not foresee the exact outcome of

our journey. It is our blessing to acknowledge that we have been cared for and there is faith in us. While the journey is endless, the beginnings have been promising.

Looking back at 2019, on the one hand, it served as a confirmation to the strategy we chose as we

ended the year with a profit of around ten million euros, but on the other hand, it was a year full of ups and downs and tensions. The latter was caused due to the general instability in the world.

We at Operail believe that we are an organisation with an important place in the world and especially in Estonia. Every day, our work increases safety in traffic and allows all four seasons to flourish in Estonia. In our railway hub in Tapa, our own people with their wits and skills completed the new, more fuel-efficient locomotives Karl and Rudolf. These twins serve as confirmation that engineering in Estonia can and must be developed further. Why couldn't Tapa become one of the hubs of machine building in Estonia in the future? Whatever the case, we have planted the seeds. Our multimodal routes between Tartu and Tallinn and Sillamäe serve as clear proof that we care about the environment and about safety. There were countless naysayers and sceptics, but regardless, in the last year, we brought 8,000 lorries' worth of goods to the railway from the highway. This was the exact amount of reducing the risk of collisions on the highway, and

this allows our nature to flourish. But we are not stopping just yet. We have undertaken the obligation to invest in even bigger environmental preservation and have entered into agreements in order to research the possibilities to use natural gas and hydrogen as fuel for locomotives.

2019 was a massive year for investments. The discovery of and timing for new services and markets will be the key to our success. The prerequisites needed for entering a new market in Finland were met in 2019. We invested nearly 50 million euros in this new area. Most of the investment was made for purchasing next-generation locomotives.

In the last year, we made the decision to use as little paper as possible in the future. As of now, we have entered into an agreement with an international IT development company in order to render our activities paper-free. The amount of the investment was an impressive six-figure amount. We will invest in the same proportion in order to improve the working conditions of our employees.

## What about the future?

I am certain that our aims taken years ago in order to expand the services and markets and preserve our nature will bring about the expected results in the near future. Never before have we been more focused on preserving our beautiful and clean Estonian nature. Never before have we emphasised environmental preservation when it comes to new investments as we have now. And never before have we considered the benefits received via environmental preservation. Therefore, I am of the opinion that our company has a solid vision, we have committed personnel and we have made rational income-bearing decisions. Please take the time to read our yearbook and you will be certain of it.

I wish to extend my regards to all the people of our company!

To our clients, partners and stakeholders – our heartfelt thanks!

Respectfully,

**Raul Toomsalu**



# Certification



*Oleg Paltšonok and Vassili Prodanets, our welders and engineers, who led our construction of the wagons for the armoured train.*

- Operail's multimodal freight transport project launched in 2018 to increase domestic railway transport receives acclaim as the logistics achievement of 2019 at a competition organized by the Äripäev business daily's logistics news and the PROLOG supply chain association. The multimodal freight transport project helps to save over 8,000 truck trips per year on the highways, increasing traffic safety and reducing environmental impact in the logistics sector.
- Operail placed fifth in the 2019 instalment of the Top 100 rankings of the most

successful Estonian companies, compiled by the Äripäev business daily. The year before, Operail placed 490th.

- Operail is among the ten strongest companies in the exporter of the year category in the business awards handed out by Enterprise Estonia and the Estonian Employers' Confederation.
- At Estonia's largest hackathon held in Tallinn as part of the JCI World Congress, the Operail team places second with a DAS (Driver Assistant System) solution that gives locomotive drivers information and instructions on what gear position, speed and travel style to choose to make freight operations even more efficient.
- The Harju Business and Development Centre chooses the replica of historical armoured train, the No. 7 Wabadus, as the achievement of the year. Four of its wagons were built at Operail's Tapa depot. The authentic looking replica of the train built for the national centenary has separate cars for medics, machine-gunners, assault troops and artillery.

# Sponsorship activity



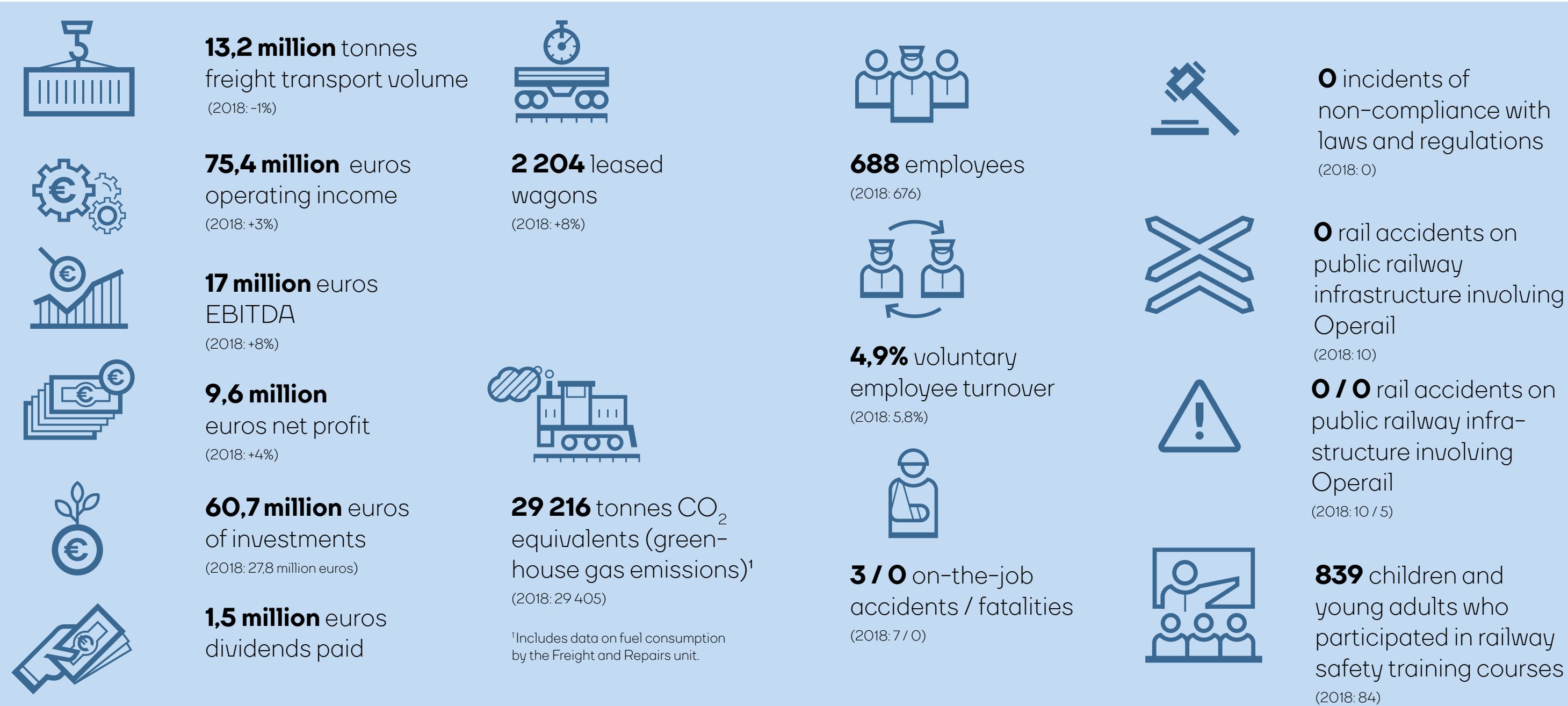
In its sponsorship activity, Operail proceeds from the principle of supporting R&D that contribute to achieving the company's operating and financial goals. In 2019, we allocated 2,220 euro grant to TalTech's development fund SA Tallinna Tehnika-ülikooli Arengufond to fund a scholarship for one successful master's degree student in the engineering faculty studying logistics or product development and production technology.

As a state company, we cannot distribute support for various community initiatives. We support various projects that advance the railway field and projects related to railway children. We have taken a leading role in popularizing the profession of railway worker.

*The HR and Marketing Manager of Operail Jane Etverk delivering a grant to Janno Õunpuu.*



# Key results for 2019





# Top headlines in 2019

## March

- WagonPro AS gets a new name and identity – Operail Leasing AS.



## April

- We introduce a new group of goods to our multimodal freight transport: crushed stone.
- We discontinue provision of wagon repair services in Tapa.
- We join a charter between state enterprises to abide by responsible business principles, wishing to set an example to encourage the prioritisation of these principles.

## September

- We and other organizations in the railway and rescue sector take part in a major exercise for practising cooperation, readiness and interorganisational cooperation in the case of a train accident with many casualties.



## November

- An anonymous tip feature is added to our website to allow reporting of suspicions or incidents involving business ethics lapses or violations of law, corrupt behaviour, damage to property or misuse of information.

## January

- We enter into a cooperation agreement under which C30-M locomotives built in Tapa will be exported to Ukraine.



## June

- Janno Õunpuu, an engineering student who is studying product development and product technology, receives the Operail scholarship for promising Master's degree students.

## August

- We establish the Finnish subsidiary Operail Finland Oy to start servicing freight streams on the Finnish railway in 2020.
- We introduce a new group of goods to our multimodal freight operation: grain.
- The first multimodal container train, which made its maiden trip a year ago, carries 2,828 containers during the year, i.e. 5,656 trucks' worth of goods moved along the rails instead of the roads, increasing safety on the highways and helping to conserve the environment.

- A joint railway safety campaign led by Operail, Elron, Estonian Railways and Edelarauttee Infrastruktuur takes place, focusing on narrowly averted railway accidents.

## October

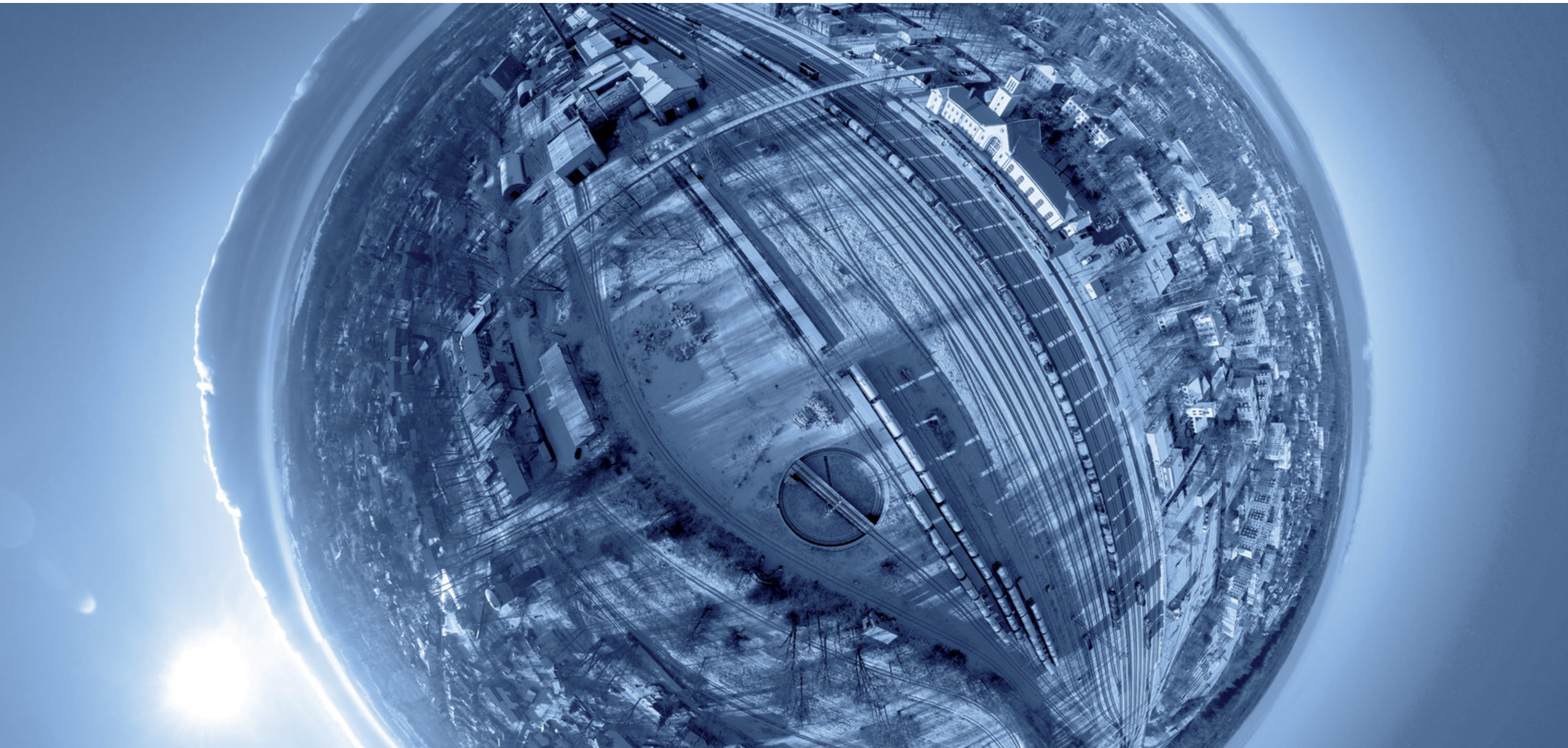
- WagonPro Holding Oy gets a new name – Operail Leasing Finland Oy.
- We introduce a freight train with a single driver, marking the start of a new era for the railway sector at large.
- We enter into an agreement with the Latvian company DiGas to develop the first LNG freight locomotive in our region. It will save at least 30% of fuel costs, emit 20% less greenhouse gas and 70% less sulphur dioxide.



- We train eight new safety ambassadors so that we can spread safety knowledge to even more young Estonians. Our objective is to reach kindergarteners and children in the early elementary grades.



# ABOUT OPERAIL





# Operating environment and trends in society

The development of the railway sector is currently influenced the most by two keywords: environmental conservation and digital solutions.

The total length of the Estonian railways is 2,144 km, of which 1,514 is public and 630 is non-public railway. The majority of the public railway (more than 1,200 km) is managed by the state enterprise AS Eesti Raudtee, and Edelaraudtee Infrastruktuur AS administers 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 European Union capital closest to China, and Estonia is crossed by a 1,229-km-long 1,520-mm gauge public railway network that connects us to Russia and Asia. We are the key link in Estonian-related import and export trade and also when it comes 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.

## Clean transport

Emissions from the logistics sector make up one-quarter of the European Union's greenhouse gas emissions and this share is growing. To reach climate neutrality by 2050, emissions from the transport sector will need to be cut by 90%. Climate neutrality must be achieved through the joint contribution of road, rail, air and sea transport.






We consider environmentally sustainable transport very important and have taken significant steps to reduce greenhouse gas emissions in the logistics sector. We have developed domestic multi-modal railway transport services, thereby replacing more than 8,000 truck departures per year on our country's primary highways. Use of rail transport has significant advantages over road transport.

To increase environmental conservation even more in the logistics sector, we have been putting great effort into looking for ways of decreasing the ecological footprint of railway freight transport. Countries in the region have experimented with using liquefied natural gas (LNG) to

power locomotives performing shunting work. We are going even further and are developing the first LNG locomotive for line operations. Building a LNG line locomotive marks the dawn of a new era in performing Baltic railway transport and the entire region's railway sector. Compared to a diesel engine, use of an LNG-powered locomotive for freight transport will save at least 30% on fuel costs and emit 20% less greenhouse gas and 70% less sulphur dioxide. The first LNG line locomotive should enter into operation at the end of 2020.

## Digitization

The speed of movement of data and digital storage of data are playing an increasingly important role in the logistics sector. Our major objective for the years ahead is the digitization of freight operations. We have set a goal of implementing a new freight information system throughout the entire group, which will allow us to consolidate freight planning systems and operation and create an integrated whole to offer better customer experience and increase the efficiency of

			
	<b>3000-4000 t</b> goods	+	<b>27 t</b> goods
	<b>0,31</b> fuel/nt/100 km	+	<b>1,11</b> fuel / nt / 100 km
	<b>1-2</b> people (per train)	+	<b>&gt;100</b> drivers

railway transport. We currently use several different information systems to organize railway freight operations. However, they have become outdated and it would not be reasonable to integrate them with each other.

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

*Railway transport has several advantages compared to road transport.*

# Operail's strategy

## Trends in the railway sector around the world

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

### ATO

**(Automatic Train Operations)** – In summer 2019, the Australian mining company Rio Tinto moved its entire 1,500-km-long railway infrastructure and the trains – up to 2.4 km in length – to fully automatic control. The Auto-Haul management system can operate up to 50 heavy trains at once. The adoption of various automatic control systems will be sure to make our operations more efficient as well.

Digital rail – processes are being actively digitalised on railways all over the world. Large-scale data analyses and automation of processes allow expenses to be optimized and railway transport made even more efficient. We hope to adopt the use of a new freight system by summer 2021. This first step will pave the way for our next moves toward digital transformation.

**Hydrail – hydrogen-powered trains** – the adoption of hydrogen technology has the potential to make railway transport – already relatively clean – a zero-emissions mode of transport. That means that goods would travel the rails without harming the environment. 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.

## Shareholder 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.

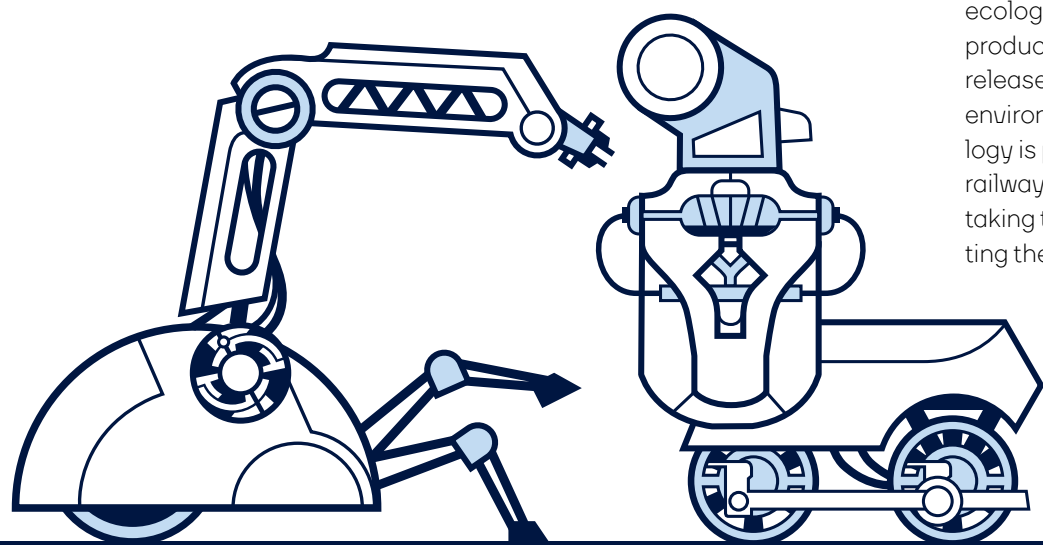
The Republic of Estonia holds shares in AS Operail for the purpose of earning income on the following considerations:

- 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 railway vehicles, including extending the lifespan of wagons, leasing and rental of wagons, administration and management of wagons in the railway administrations' rental fleet and ensuring regular repairs of the wagons in other 1,520 mm gauge railway administrations' fleets
- 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 transport obligation arising from the Agreement on Direct International Goods Transport by Rail (SMGS)

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

It is the shareholder's expectation that Operail ensure, in the medium-long perspective, that income grow proportionally faster than expenses and guarantee efficient economic activity that would ensure the development of the company and income for the owner.





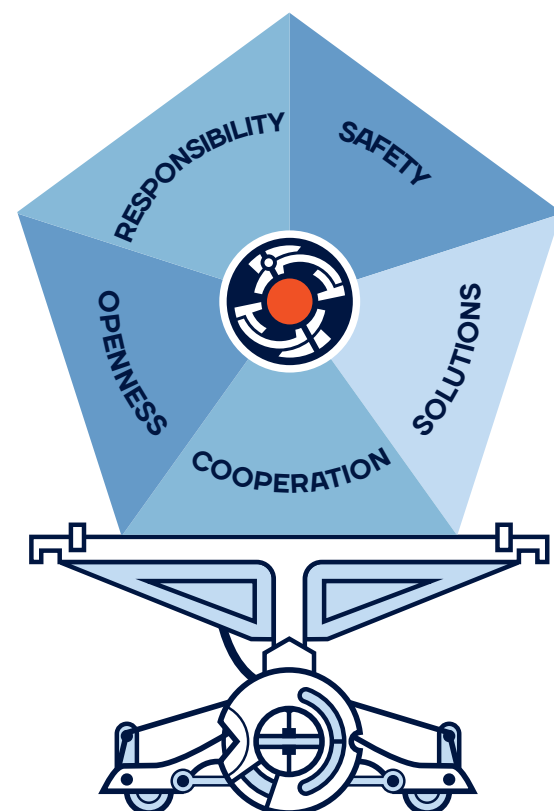
# Fundamentals of Operail's strategy

## Vision

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

## Values

Responsibility, safety, solutions, cooperation, openness.



## Mission

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

## Objective

We aim to be an engine for implementing new service standards in international railway logistics.

## Role and responsibility in society

We clearly understand that by contributing to carriage of different goods in the railway logistics field, we are operating in a field that is strongly tied to the surrounding environment – society, the economy and nature. We allow goods to circulate and thereby support the development of the economy, yet due to our position, our attitude also dictates the broader impact of our activities.

We seek to be a responsible partner for the railway, offering environmentally clean, cost-effective and safe logistics and railway-vehicle-related services. Twenty-four hours a day and seven days a week, our personnel make sure that goods get to where they're going safe and intact. That is why we are always striving to maximize the safety of our personnel and goods and environmental conservation – responsibility is one of our values.

Freight transport on the railway is 28 times safer than by road. One freight train can carry as much freight as 100 tractor-trailers. We believe in a clean and safe

future and know that we can shape that future by what we do. To this end, we work on bringing goods over from road to rail and developing LNG- and hydrogen-powered locomotives. We also call on other transport and logistics undertakings to look for more sustainable solutions.

In general, we see Operail's role and responsibility in society as the following:

- **ensuring safety and security** in (railway) traffic, freight operations, for nature and surrounding regions and in cooperation between our personnel and cooperation partners, to the extent within our control
- **contributing to environmental conservation** by reducing our activity's footprint and by offering solutions for rerouting flows of goods from road to rail
- **being honest and open and oriented and visible to society**, including behaving ethically, communicating proactively, being transparent in regard to related risks; take responsibility for resolving local problems in the communities in which we operate

- **showing initiative in our role as an advocate for the field**, so that by promoting innovation, education and cooperation, we can improve quality and efficiency in the long run

- **caring about our personnel (and indirectly their families as well)** is a value that stems from our ethical principles; it allows us to remain a sufficiently attractive employer for qualified employees who can help us to achieve our aspirations

Our strategy must support all of these goals. We know the world's resources are not unlimited and that is why it is important to take into account our surrounding and be caring.

The railway sector has historically been closed and slow to change. Our efforts in recent years have helped Operail to become a more open and innovative organization, which is a pillar of our future development.

In late 2019, we took the first steps for more systematic management of activities that express our sense of responsibility. By the time of the publication of the yearbook in spring 2020, we had

# Description of Operail's strategy

started reflecting more broadly on Operail's societal impact and thinking about how we could promote our business in line with sustainable development of society. We will release our objectives in the course of 2020.

## Multimodal freight transport will increase traffic safety on roads and conserve the environment.

The logistics sector inevitably has a large ecological footprint and solutions are being sought for transporting goods more sustainably. The railway is the best replacement for overburdened highways. Operail has brought goods from the road to the railway, thereby increasing traffic safety and reducing the environmental burden from the entire sector.

In recent years, Operail has increased the volumes of freight carried by containerized trains in Estonia and opened new routes: Operail now transports container trains weighing more than 1,000 tonnes from Tartu to the ports of Muuga and Sillamäe. For comparison, one truck can carry only 27 tonnes of goods



at a time. Thus, one train equals more than 30 trucks. Over 12 months, such multimodal freight trains have replaced 8,000 truck departures.

*In 2019, Operail's activities resulted in removing more than 8,000 trucks from the highways by way of container trains. Photo: Operail's container train in the beautiful Southern Estonian landscape.*

In the Wagons business unit, we are planning more efficient use of our workforce.

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. expanding our geography to reduce dependence on a single market
3. implementing new services and products to create value added
4. raising the capital necessary for growth
5. high-calibre general administration of the company

We are planning significant financial and qualitative improvements in all business areas in the parent company.

The Freight Transport business unit focuses on preserving existing transit volumes and growing them. A major challenge for the business unit in the coming years will be to replace the freight transport information system and digitize the data. The new freight transport information system will

allow freight documents to be handled more efficiently, trains can be better planned and customer satisfaction can be increased. In addition, the group's objective in 2020 is to start servicing freight transport in Finland.

In the Repairs business unit, keeping wagon repair profitable has been a challenge in recent years. In the first half of 2019, we discontinued scheduled repair services for wagons and will direct the resources freed up to locomotive rebuilding – in other words, to production – which has high value added.

In the Wagons business unit, we are planning more efficient use of our workforce. Likewise, the objective of the group is the international expansion to new markets.



# Structure and management of the company

The management board is responsible for the executive management of the group. It is appointed by the supervisory board.

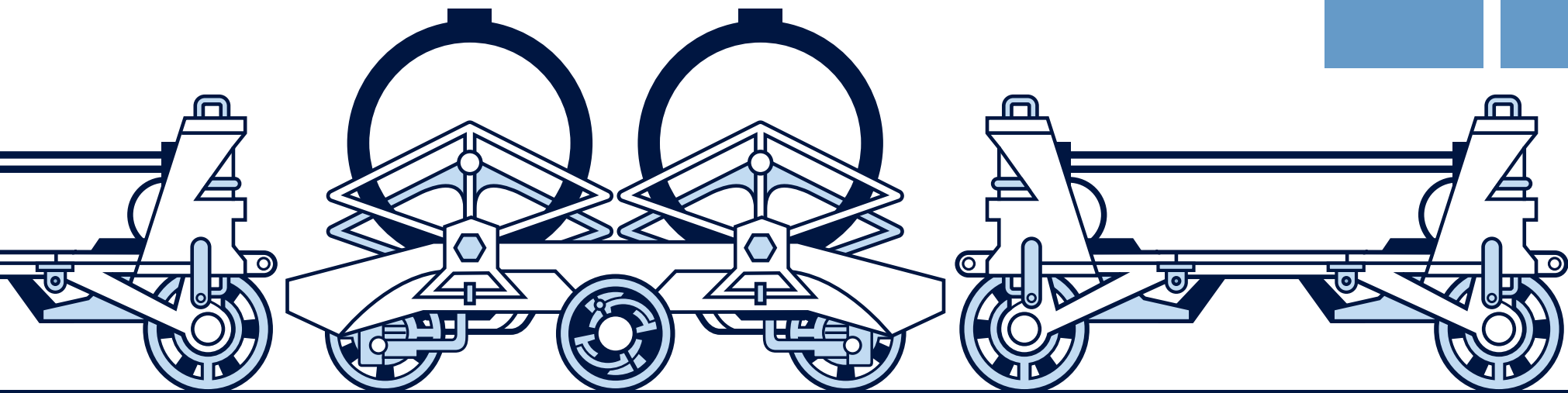
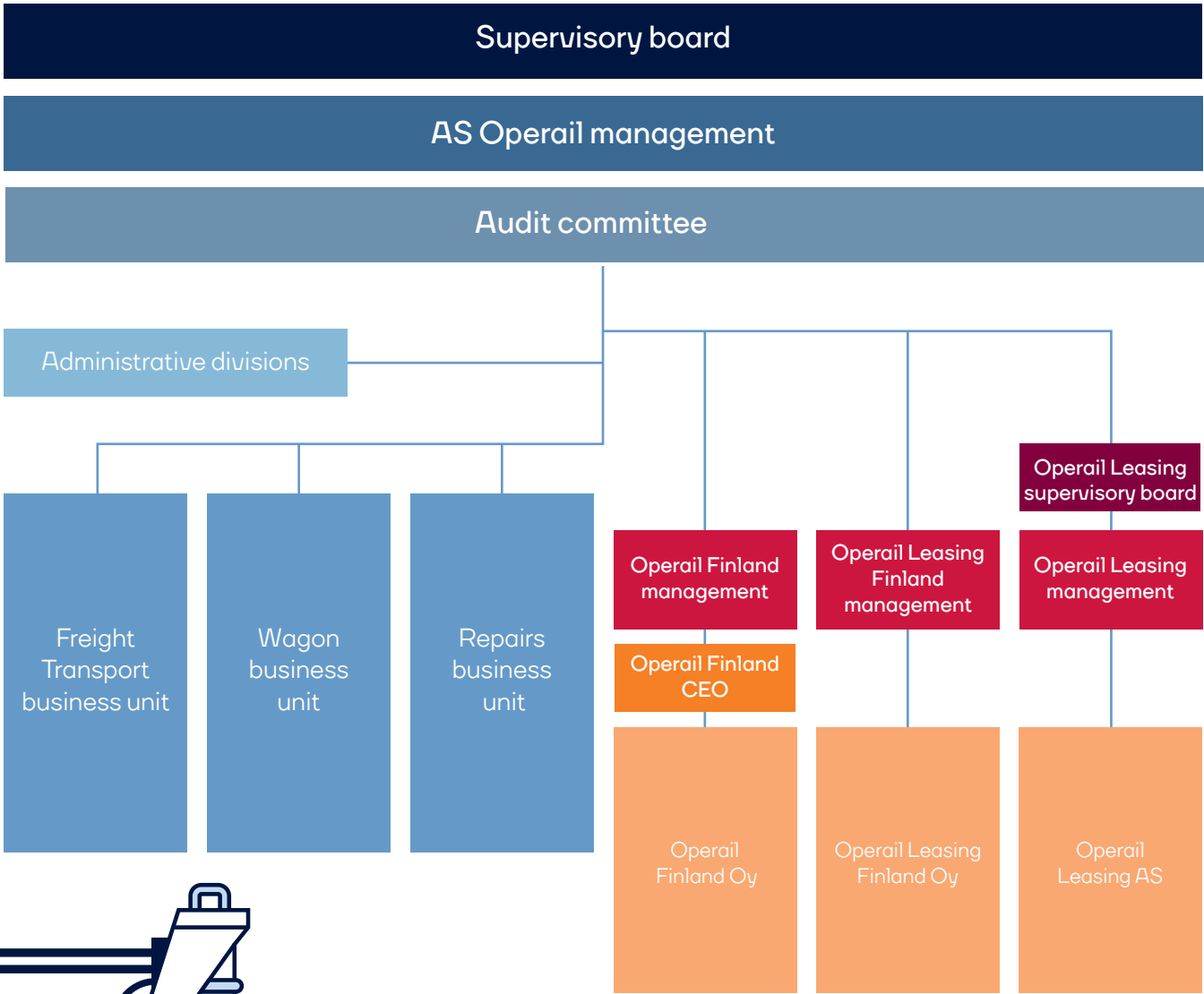
The owner of Operail Group is the Republic of Estonia and the company is in the area of administration of the Ministry of Economic Affairs and Communications. The management board is responsible for the executive management of the group. It is appointed by the supervisory board.

The company's board includes the chairman of the management 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 (100% subsidiary) and the rolling stock rental company Operail Leasing AS

(also 100%) and its subsidiary in Finland Operail Leasing Finland Oy (100% subsidiary).

The structure of the parent company is divided into three main areas of activity, and a separate business unit deals with each one: the Freight Transport business unit, Wagons business unit and Repairs business unit. The business units are supported by the other departments: finance, IT, human resources and marketing, safety and quality, technology, development, legal, administrative and sales department.

## Structure of the Operail Group



# Management board



**Chairman of the management board**  
**Raul Toomsalu**

Serving since 29 February 2016

Spheres of responsibility in the company: general management of the Freight, Wagons and Repairs units of the company, management of the supporting units (staff and marketing, sales, technology, safety and legal), as well as public communication.  
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 agricultural group 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, was at the helm of the corporate banking unit.



**Member of the management board**  
**and CFO Paul Priit Lukka**

Serving since 1 February 2013

Spheres of responsibility: financial management of the company, general management of the financial, accounting, ICT and administration 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. From 2005 to 2007, he worked as an investment consultant at Danske Capital Finland /Amber Trust.

**Supervisory board**

Chairman of the supervisory board Kuldar Leis  
Members of the supervisory board Madis Ermo, Peeter Kadarik, Ahti Kuningas (until 01.11.2019) and Indrek Gailan (from 21.11.2019)\*

# Guiding principles

We also wish to reduce vertical management levels to become more flexible and increase responsibility for management decisions at every level.

**Open structure and culture**

In the last decade, the railway sector, which has historically tended to be closed and regulated, has been experiencing 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 organization.

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 crucial importance. The goal for 2020 is to map the company's core processes to find problem areas that need to be tightened up and commence digitization.

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 and other incidents related to violations or unethical conduct always mean a risk to reputation. Operail has zero tolerance for corruption.

In 2019, Operail did not have a single case of non-compliance with law or regulation that would have led to significant penalties for the company (2018: 0).

The main activities aimed at corruption prevention and increasing transparency in 2019 were:

- drafting Operail's action plan for corruption prevention;

28 \* Operail advisory board as of 01.06.2020:  
Indrek Gailan, Leon Jankelevitsh, Siret Liivamagi,  
Tarmo Porgand, Kaido Saar



- setting up an anonymous tip line for reporting corruption suspicions;
- switching to the Mercel purchasing environment starting 1 February 2019;
- creating a gift registry;
- the decision to revive, starting in 2020, the tradition of organizing anti-corruption training for employees each year.

By the time of publication of the yearbook, we approved, in March 2020, 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 honest behaviour.



*Operail's in-house publication Igiliikur is published once every quarter.*

**The code sets forth the following, 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 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 organize such purchases in the Mercel 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.

**The main conclusions drawn in the corruption prevention study conducted among Operail personnel following the reporting year (spring 2020):**

- 87% of respondents say that the management style and actions taken by management at Operail express an attempt to reduce the risk of corruption and fraud at the company
- additional awareness-raising and training of employees on this topic needs the most work

**Open communication**

One of the most important values at Operail is openness. That means our decisions are clear, our actions are goal-oriented and consistent and we are open as a company. We want our communication between interest groups and the public to be direct, honest and transparent.

In 2019, we devoted significant attention to open communication with our employees, customers, partners and the media. This presupposes the existence of channels for in-house and external communication. Over the last few years, we have recruited new heads of marketing and in-house and external communication, developed a new website and maintained a regularly updated news stream on the website. We have also started publishing an in-house newsletter.

The most important activities in 2019 for ensuring open communication:

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

- posts on 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, other bulletins)

We want to be a respected opinion leader and spokesperson in our sector, part of the dialogue on future trends in railway transport and freight transport as a whole. 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.

# Risk management



*Operail is staffed by professionals who contribute to the success of the company.*

In our everyday activity, we face various risks and managing them is part of the group's operating activity. Identification and analysis of risks and a systematic approach to risks are one of the most important components for achieving the group's strategic goals.

The management board takes general responsibility for shaping the framework for risk management and oversight. The system is supported by the supervisory board, the audit committee and the internal auditor.

Our objective is to consistently provide the international market with freight transport service and railway vehicle rental, repair and locomotive upgrades.

### Financial risks

Thanks to our international position, we are exposed to certain financial risks, the main ones being currency risk, interest rate risk, credit risk, liquidity risk and capital risk. The group's general risk management programme focuses attention on the unpredictability in the financial markets and attempts to ease potential negative influences on the group's financial results. To hedge risks, it is important to continuously analyse objectives, financial indicators and potential risk mitigation instruments.

### Market risks

Restrictions on or extraordinary interruptions of freight transport in Estonia and other countries, competition and changes in customer behaviour are the main market risks that may impact on our activities and achievement of our goals. To hedge these risks, it is important to diversify our field of activities, offering a broader portfolio of services and minimize the risk of income declining in individual fields.

### Operating risks

Our objective is to consistently provide the international market with freight transport service and railway vehicle rental, repair and locomotive upgrades. The main risks that may affect the achievement of our goals are, above all, malfunctions and disruptions to information system, quality problems and damage to rolling stock. To mitigate these risks, we consider it important to constantly analyse our needs and use information systems that are up to date and appropriate to the purpose.

The group's assets and liability are insured against unforeseeable incidents, curtailment of business activity and additional expenses, and third-party claims against the group. We are also covered against, e.g. environmental damage, losses from crime, losses stemming from liability of the management (management board, supervisory board and managerial employees) and accidents, thefts and vandalism involving rolling stock and motor vehicles.





*The overseer/repair specialist of wagons inspects a train.*

### Ethics and corruption risks

Risk of fraud and corruption is, above all, connected to fuel thefts, giving and receiving of gifts, conflict of interest and dishonest behaviour on the part of customers. To mitigate the risks, it is important to establish clear rules, ensure transparency and correct procedure,

raise awareness of employees and partners in cooperation, set a good example through a transparent attitude and instilling a culture of reporting potential risks. Possible cases of corruption, abuse of position and other incidents related to violations or unethical conduct may lead to a risk to reputation.

### Environmental and safety risks

Accidents involving freight transport or the workplace, spills and handling of hazardous waste are the main environmental and safety risks. The most important step is to prevent crises that could pose a threat to the environment and human health (including technical maintenance of rolling stock, awareness among related parties and the public) and to ensure readiness for sufficient action if they do arise (accidents, leaks of hazardous materials and other incidents). The underpinning of readiness is the existence of a crisis plan, the capability for rapid coordinated action with partners and employees' awareness of their role. In transporting hazardous substances, we must be aware that the customer must also prepare the goods in a correct

manner on their side. For hazardous materials, it is critical to handle them in the required manner. Mitigation of workplace safety risks is aided by the creation of a safe work environment, raising employees' awareness and developing a culture of safety to ensure that rules are followed and safety measures are adopted.

### Risks related to employees

The main risk as regards employment and human resources management concerns the challenges of ensuring sources of future workforce. This is related to the ageing personnel, the current perceived lack of appeal of the sector as a career, and Operail's relatively new name as a market player. We have to consider that professional railway training is something that must be provided at the company *in situ* or we must explore options of tapping the international market. We have to contribute to improving our reputation as an employer so that positions are always filled by highly qualified employees who are able to contribute to the company's development. Secondly, we have to be a trustworthy and motivating employer for our current

employees so that we can minimize employee turnover and increase the efficacy of our workforce.

### Cyber security risks

Because Operail does not administer a large amount of customer data, our main emphasis lies on protecting employee data and strategic business information. We must ensure that our information systems can withstand outside attacks, that they are functional and online at all times and that our employees cannot access sensitive personal data or classified documents.



The most important step is to prevent crises that could pose a threat to the environment and human health.

*Defect detection specialists are inspecting whether the wheelsets have been properly attended to and that the aggregates, nodes and details have been maintained in an orderly manner. Up to 5,760 wheelsets are inspected each year.*



# SERVICE





# Railway safety



*Railway safety is one of the key areas of Operail. A derailed wagon may cause huge damage.*

As a company engaged in railway freight transport, safety is our number one priority. We make efforts each and every day to ensure that our personnel and goods are healthy and intact and that no environmental damage is caused, and to increase railway safety awareness in society.

Ensuring railway safety depends on maintenance of rolling stock and infrastructure, our personnel's awareness, the conduct

of our customers and partners, other road users' behaviour (drivers, pedestrians) and 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 and quality 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. According to the risk analysis conducted by Operail, in no case is the likelihood of risks occurring and their consequences very high or high.

We are very pleased that 2019 did not see any collisions with either vehicles or pedestrians related to Operail's activity (2018: 10 collisions, five injured, 0 other high-risk incidents). There was only one accident involving rolling stock (2018: 0).

### Risk management system

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

- safety policy and goals and measures for achieving them (reviewed each year)
- those responsible

for ensuring safety

- procedure for evaluating safety risks
- organizing of training
- action plan in case of accidents or incidents

In addition, safety-related operations are governed by the Railways Act, which proceeds from European Union regulations. The conformity of safety management systems to the requirements is inspected by the Consumer Protection and Technical Regulatory Authority (TTJA).

### Operail's safety goals are

- to minimize incidents that disrupt railway traffic and pose a risk to people and property;
- to plan and implement preventive measures based on assessment of risks and risk sources for avoiding major accidents;
- to minimize railway accidents with consequences harmful to the environment

and other railway accidents:

- to avoid or reduce health risks impacting employee health and safety.

We are very pleased that 2019 did not see any collisions with either vehicles or pedestrians related to Operail's activity.



In everyday practice, bolstering 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 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

*Close to 63% of Operail's goods are considered hazardous consignments subject to special requirements. The safety advisor for railway transport makes sure that all requirements related to hazardous freight are followed, including the correct means of transport (wagons), technical maintenance, labelling and documentation.*

*In the scenario of the major exercise 'Kopli raud', a passenger train and a freight train were involved in an accident.*

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.

**2. The Wagons business unit** organizes technical service for train assemblies, including decoupling repair.

### Example

*When passing through Narva, Kohtla, Vaivara, Tapa, Ülemiste, Tartu, Koidula, Muuga and Maardu stations, technical inspection takes place where the wagon inspectors and repair personnel check the wagons' technical condition and documents and if necessary conduct a brake test. In the 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 be resolved on the station siding, the repair is performed without decoupling the wagon.*

**3. The Repairs business unit** ensures that rolling stock undergoes depot repair and major repairs as well as repair of individual parts.

### Example

*The unit administers depots in Muuga and Tapa. Modernization*

*of locomotives and, if necessary, locomotive repairs are performed regularly. Repair is performed on wagons on a rolling basis, 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.

### Example

*Operail's contribution to increasing traffic safety on highways:*

*In August 2018, we launched multimodal freight transport to reduce freight transport on roads. One outcome has been improved traffic safety. Every container we bring over to rail from the roads means two fewer trucks on the highways. In 2019, we transported over 4,000 containers and re-routed 8,000 truckloads of goods, which otherwise would have increased traffic densities on Estonia's primary highways.*





Operail's Tapa depot, boasting 135 years of experience, is one of the oldest and most unique depots with 1,520 mm gauge in the region.

### 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 licence for working on railway infrastructure. Locomotive drivers all have valid locomotive driving licences and certificates. Direct supervisors 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 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 of railway safety

We are cognizant that the incidence of rail accidents can be minimized 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 who visit schools and preschools to talk about railway safety.

### Example

September 2019 saw Estonia's largest railway exercise of the last eight years, 'Kopli raud', where



Rescuing locomotive drivers during the exercise 'Kopli raud'.

different scenarios involving freight and passenger train accidents were played out. In this year's scenario, a passenger train rear-ended a freight train. An extensive hazmat spill and injuries to a number of passengers resulted. Due to the spill, nearby residents had to be evacuated.

The exercise was organized in collaboration between Operail, AS Eesti Raudtee, AS Eesti Liinirongid, the Police and Border Guard Board, Rescue Board, Alarm Centre, Tallinn

emergency services, Consumer Protection and Technical Regulatory Authority, the Tallinn City Government, the Environmental Board and the Environmental Inspectorate.

We will participate in such exercises in future as well to ensure that Operail employees and other stakeholders are aware of what action to take in an accident and to increase general safety on the railways.

# Customer relations



*Operail's C30-M locomotive in front of the Muuga depot.*

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

## **Operail's freight transport clients are:**

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

- oil terminals in Muuga, Paldiski and Sillamäe, who are Operail's clients through their own logistics companies;
- manufacturing or trading companies.

The main goods transported by Operail are fertilizers, fuels, chemical goods, and, in the case of domestic transport, oil shale, timber, metal products and other categories of goods. Fertilizers make up about 46% of our transport volumes, fuels 35%, chemicals 11% and other goods 8%.

## **Customers appreciate:**

- price and stability – railway infrastructure usage fees have the most influence on this factor in our case. The usage fees are adjusted and reviewed each year with AS Eesti Raudtee as the infrastructure owner and the Consumer Protection and Technical Regulatory Authority;
- quality of service – includes the responsiveness of customer service, the speed and accuracy of transport, safety of goods 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 has a very important role in offering the service, and digitization of railway freight transport 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 of transporting consignments

*Operail's logistics and locomotive logistics plan trains and locomotives daily. They receive about 200 phone calls a day.*





# Cybersecurity

As a responsible enterprise, we devote attention to potential risks related to cybersecurity and requirements for ensuring data protection.

As a responsible enterprise, we devote attention to potential risks related to cybersecurity and requirements for ensuring data protection. We have performed a risk analysis for identifying bottlenecks.

Besides business secrets and customer data, the main data in the possession of Operail that need to be protected pertain to personnel. We have implemented all obligatory rules, and we monitor traffic within the company's information systems, applying various safety measures (principles for creating secure passwords, double authentication of users, obligatory cyber hygiene trainings for all employees, IT-related user trainings).

## Example

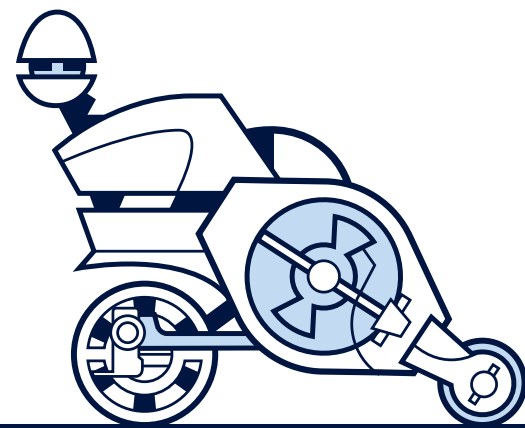
October 2019 was cyber responsibility month at Operail, as part of which we published articles and videos on in-house channels on topics related to cyber security. We also carried out a cyber-hygiene test where employees could check their knowledge of cyber security.



No cyber security or data protection related incidents with significant impact were established in 2019. We were able to intervene in the case of a couple incidents before losses resulted.

Operail is part of the roundtable on cybersecurity that unites major logistics enterprises and where risks, experiences and new avenues are discussed.

*Operail team at the largest hackathon in Estonia organized by the JCI in cooperation with Tehnopol Science Park.*



# Innovation

To facilitate innovation, we are taking part actively in various conferences and hackathons and working closely with universities and research institutes.

The railway sector is not in the world's vanguard when it comes to digital solutions, automation and innovativeness. The same is true for Estonia's local railway sector. 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 taking part actively in various conferences and hackathons and working closely with universities and research institutes. Implementing changes often requires cooperation with other companies in the railway sector – for this purpose we take part in development projects and innovation discussions that unite companies in the field.

The priority of our development activity is to deal with automation of work processes and data digitization projects. The purpose of digitization is to collect all of the data circulating in the company, categorize and save it in digital form so that the information stream would be verifiable and fact-based.

The overarching goals for larger projects are:

- 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).

In this way, we reduce the risk that manual labour and knowledge that are not saved will be lost when there is a generational change.

## The most important innovation projects processed by Operail in 2019

**Replacing the Freight Transport business unit's information system with a more modern and reliable one.** In this project, we automate work segments that were previously done on paper. By making the processes automatic, we reach an understanding of why a given work segment is performed the way it is. The information is thereafter available directly from the system; it moves faster and efficiency rises.

**Optimizing travel.** The DAS (Driver Assistant System) gives locomotive drivers information and instructions on what gear position, speed and travel style to choose to make freight operations even more efficient, reduce fuel expenses and plan to reach the destination on time. The goal is to use fuel economically and optimize expenses.

**Establishing an incident management system.** This is a solution that allows the smoothness of actions related to incident resolution and communication to be administered, allowing incidents to be monitored and analysed and statistics consolidated to be used



Raul Toomsalu and then Minister of Economic Affairs and Infrastructure Kadri Simson in the Tapa depot during the ceremony for putting the C30-M into service.

to draw more efficacious conclusions and make improvements.

**Digitization of production at Tapa depot** – in the first phase, transitioning the locomotive construction and modernization process to a digital environment (Dynamics 365).

**Single-person locomotive operation.** In the past, freight train locomotives were always manned

by a driver and assistant driver but the first single-person departure took place in autumn 2019, marking the start of a new era. 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. For now, only a few locomotives have this readiness, but in the future we plan to use single-person mode on all direct trains.



# ENVIRONMENTAL IMPACT





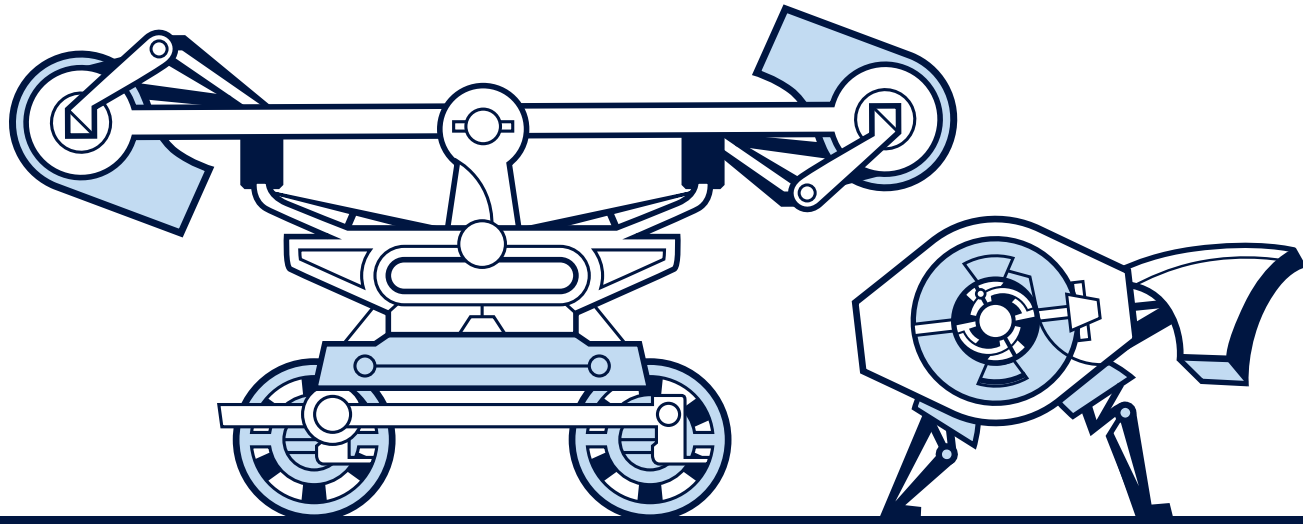
Transport and logistics are one of the areas of activity with the greatest environmental impact. At Operail, we believe that it is important to make great efforts to avoid environmental harm. Similarly to companies all over the world in this sector, we, too, are looking for ways to reduce the carbon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

Operail's greatest environmental impact and risk aspects are:

- fuel consumption and emissions into ambient air;
- transport of hazardous freight and possible spills from railway vehicles;
- 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 2019, Operail did not have a single case of a non-conformity that led to a fine or precept (2018: 0).




Energy and fuel consumption

Our greatest direct environmental impact comes from fuel burned in internal combustion engines, needed for rail freight operations. We have composed a table of quantities of fuel consumed by vehicles in 2019 (thousands of litres).

Freight Transport's fuel cost in 2019 was 3.95 litres/km (2018: 3.87) which includes total mileage of locomotives for freight traffic, management operations, shunting and reserve travel as well as for travelling with a train.

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 at least 30% fuel savings. The modified LNG line locomotive will emit 20% less greenhouse gas and 70% less sulphur dioxide than a diesel. After the end of the pilot testing period planned for spring

Fuel consumption


thousands of litres	2019	2018
 <b>Freight Transport business unit's fuel expenses</b>	<b>8 703</b>	<b>9 092</b>
of which fuel expense (diesel fuel)	<b>8 669</b>	<b>9 060</b>
of which fuel costs for trucks (diesel and petrol together)	<b>34</b>	<b>32</b>
<b>Wagons business unit's truck fuel cost</b> (diesel and petrol together)	<b>18</b>	<b>18</b>
<b>Repairs business unit's truck fuel cost</b> (diesel and petrol together)	<b>14</b>	<b>17</b>
<b>Support Services truck fuel cost</b> (diesel and petrol together)	<b>11</b>	<b>13</b>
<b>Total</b>	<b>8 746</b>	<b>9 140</b>

2020, 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.



Quantities of electricity consumed in 2019

MWh		2019	2018
	Freight Transport business unit	443	419
	Wagons business unit	531	586
	Repairs business unit	2 097	2 551
	Support Services	186	252
Total		3 257	3 808

In the environmental management system, we have set the goal of reducing energy consumption. In locations in our own ownership (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 in recent times we have done the following:

- in the procurement for new modular containers meant for employees' break areas, we set a condition that environmentally friendly solutions must be used (e.g. local solar panels for the water boiler)

- we have started developing digital solutions for locomotive drivers that guides them to operate their locomotives more smoothly and with greater fuel efficiency

- 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 combustion of fuel used for freight transport.

Direct greenhouse gas emissions in 2019 (tonnes of CO<sub>2</sub> equivalent):

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

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

- we are making 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 rails. Railway transport is much cleaner than road transport. The total carbon emissions forgone due to our services in 2019 was 51,262 tonnes (2018: 58,797).

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.** With use of hydrogen as a fuel, the only by-product given off is pure water – no harmful substances are released into the ambient air when a hydrogen locomotive is used, and 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.



Bringing freight from road to rail helps reduce the ecological footprint of the transport sector.

Direct greenhouse gas emissions in

tonnes of CO <sub>2</sub> equivalent		2019	2018
	Freight Transport business unit	28 479	28 613
	Repairs business unit	737	792
	Total	29 216	29 405

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 2019, transport of hazardous goods made up 63% of all freight carried (i.e. about 8.3 million tonnes of hazardous freight), a year earlier 66% (i.e. about 8.8 million tonnes of hazardous freight). In 2019, we used slightly over 5,200 litres of chemicals at Tapa depot, and a year earlier, nearly 14,000 litres.

The environmental risks in our locations are mainly related to our technical inspection points and depots where locomotives and railcars are repaired and maintained and where there is 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 of locomotives during the period between repairs is a risk source 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 oil before the water reaches the sewerage system or deeper into the soil.

Four leaks took place in freight transport in 2019 (2018: 0). All of these leaks were insignificant (slight drips) and there was no risk of environmental contamination. The wagon inspectors took the necessary measures.

Waste

The waste generated mainly arises in the course of rolling stock repair and maintenance. In 2019, a total of 137 tonnes of waste was generated in depots (2018: 182; 2017: 185), including 62 tonnes of hazardous waste (2018: 82; 2017: 70). Of all waste, we recycled 33% through waste handlers. This proportion has seen strong growth year after year, as it was 10% in 2018 and 2% in 2017.

We are careful and observe the requirements when handling waste

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.

generated in the course of locomotive maintenance. With regard to hazardous waste, we engage in cooperation with waste handling partners with the necessary licences. We do not cease to be an interested party once we hand over the waste; rather, 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 the waste generated by the Tallinn headquarters in their everyday work and also plan to introduce sorting in other locations as well. We are implementing a new freight transport information system to reduce documentation circulating on paper.

8 October was a community clean-up day at Tapa depot, with close to 60 Operail employees participating. A total of almost 4 tonnes of mixed waste, 5 tonnes of wood waste and branches and 6 tonnes of scrap metal was collected.

Noise and vibration

Train traffic causes a certain amount of noise and vibration.



Operail's employees at the community clean-up day at Tapa depot, where we also cleaned Estonian nature.

The noise caused by movement of rolling stock and loading of goods can be perceived as a nuisance by 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 pose less of a nuisance for residents. Operail is ready for cooperation to move services that cause noise and vibration to the suburbs.



# EMPLOYEES AND WORKING ENVIRONMENT





# Employees and working environment

Professional, experienced and development-oriented employees are Operail's greatest asset. Operail employs close to 700 people across Estonia, and most of them (42%) work in the greater Tallinn area, 22% in Tapa and 16% in Narva and vicinity. Twenty per cent of our personnel work in southern Estonia (Tartu, Valga, Koidula and nearby stations). We are thus an important local employer even away from the capital city.

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 200 locomotive drivers and assistant drivers are male, yet the same business unit employs 150 females who work in the field of freight transport regulations and documentation. In total, the employees of Operail amount to 71% men and 29% women, while in leading positions, the division of men and women is 82% and 19%, respectively.

Although the Estonian population as a whole is ageing, Operail's business units are characterized by an even greater proportion of middle-aged and 50-plus employees compared to the general population. At the same time, we see that the Operail 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

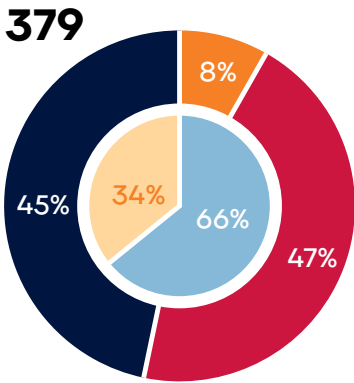
- promoting a values-based management and organizational culture
- promoting two-way in-house communication
- activities necessary for ensuring future growth of personnel

### Youth and future employees

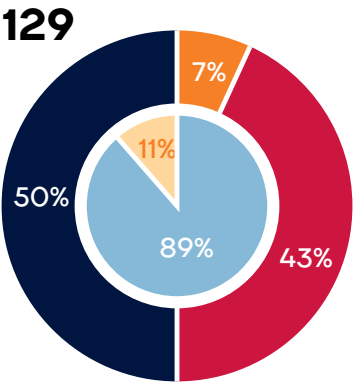
Operail and the railway sector in general are characterized by the somewhat advanced average age (48 years of age in Operail and long seniority with the company (average of 17 years at Operail).

### Gender and age diversity

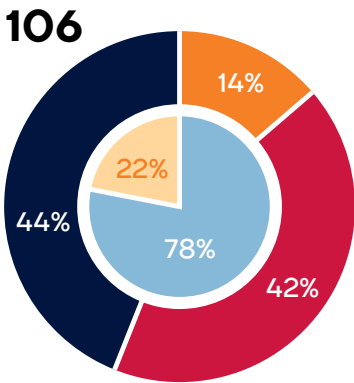
Freight Transport business unit  
Number of employees



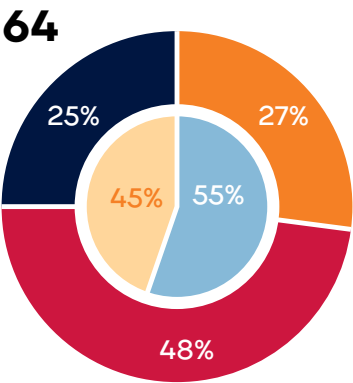
Wagons business unit  
Number of employees



Repairs business unit  
Number of employees




Administration  
Number of employees



Men  
Women

34 years old and younger  
35-49 years old  
Over 50 years old

### Key personnel indicators

	2019	2018	2017
 Average number of employees, reduced to full-time equivalent	688	676	667
Number of new jobs added during the year	12	10	12
Employees' voluntary turnover rate	4,9%	5,8%	4,0%





*Operail's people at the company's strategy days.*

Looking at the future, this trend is changing with many employees nearing retirement age, the innovative trends taking place in the logistics sector and the changes within the company (developments in structure, change in the leaders' generation, digitization and innovation), which increase the attractiveness of the entire sector, including Operail as an employer. Still, looking to the future, we can expect that the average employee seniority in

the railway logistics business will remain higher than average and indicate the strength of the organization in retaining specialists in the field.

We realize that the historically closed nature of the railway sector and the low attractiveness of the field are already now a significant risk when it comes to doing sustainable business. For this reason, we have made it our goal to take conscious steps to strengthen our image as an employer. We recently rebranded and we have taken the next steps to introduce ourselves to the general public and youth – our potential next generation of employees. However, our attractiveness also depends on the sector's general development toward innovativeness. Digitization is making work processes more efficient, creating the possibility to work smarter together and creating 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 specialized nature.

In 2019, Operail had six interns from the Tallinn University of Applied Sciences and the logistics

The railway is a field where, due to the specific nature of the work, it is not possible to work in specialized positions without specialized training or a professional qualification or certificate.

field at TalTech (2018: 4). There is actually greater demand for internships than we are able to satisfy.

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, be confident about their decision-making and follow through in executing their plans. We offer our employees great decision-making freedom to act and develop 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 specialized positions without specialized 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. Each month, technical training days take place in positions related to the railway field where we deal more in-depth with developing and maintaining specialized skills and safety matters. Training and retraining for specialized 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 takes part actively in the work of professional committees.

In 2017, we opened our training centre on the basis of a permit applied for from the Ministry of Education and Research.

Currently locomotive drivers' certification education, in-service training and other courses are held there. We offer these trainings outside the company as well, including to our partners in cooperation and customers. If we are unable to find people with a suitable speciality or experience in working on the railway, we offer a specialized training option ourselves.

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

In 2020, we will focus on the following in addition to specialized needs:

- IT skills related to intra-company digitization
- training of managers
- development of in-house trainings and in-house trainers

Occupational safety and healthcare

Any activity on the railway always involves higher risks. To ensure a safe working environment, we follow all of the mandated 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.

On-the-job accidents have been declining for the last three years. In 2019, three on-the-job accidents were registered in Operail (2018: seven), of which one was severe. All workplace accidents resulted in at least one day of absence from work. No accidents resulting in fatalities occurred (2018: 0).

Improvement of working conditions is important for us at Operail and we must continue to focus on this in the future as well.



New module container at the Tapa station.

We dedicated 2019 to the following:

- improving work areas and non-work conditions and launching a uniform replacement project

- we upgraded the smoke gas and ventilation system at Muuga locomotive depot to significantly improve air quality
- we renovated the break areas, wash rooms and offices at Muuga depot
- we replaced six shelters meant to be used as employee break rooms located between railway segments in order to improve conditions there significantly and make the shelters usable year-round (the project will continue in 2020)
- we launched locomotive cab repairs for improving work conditions for locomotive drivers (we replaced windows, installed air conditioners and microwave ovens), we renovated 20 of the 85 locomotives owned by us in 2019 (the project is continuing in 2020)

As to the organization of work, we reviewed locomotive drivers' work and break time. We wish to change the transport schedule and service shift so that the drivers do not have to spend the night at the point of return but could come home every night

Healthy lifestyles

We are also devoting attention to popularizing health promotion, supporting employees' healthy lifestyles and being active and exercising. We provide 100 euros of compensation for employees' sports, rehabilitative care, physical therapy, speech therapy or psychological counselling every quarter. We have joined the SportID web platform to make applying for compensation for sports expenses as easy and convenient as possible for employees.

In lieu of the sports compensation, Operail employees can also opt to use the Viveo Health solution. Similarly to compensating sports expenses, we pay 100 euros per quarter directly for each employee on the basis of an invoice from Viveo Health.

We incentivize and support participation in team sports competitions:

- as part of the workplace sport month organized by the Estonian Corporate Sports Association, Operail employees squared off with 20 companies and finished fifth

We are also devoting attention to popularizing health promotion, supporting employees' healthy lifestyles and being active and exercising.

- in the 2019 series of events in the Estonia's most Sports-Minded Government Institution, Operail teams competed in volleyball, basketball and indoor football tournaments (Operail came in fourth out of 15 institutions)

The number of days absent from work due to illness per employee in 2019 was an average of 10.8 days (2018: 9.4; 2017: 11.0), i.e. sick days made up 4.3% of all planned work days (2018: 3.7%; 2017: 4.3%)





*Our team achieved a strong 4th place in a competition series for the Estonian State Authorities.*

### Getting employees involved

We have a high regard for open communication and the opinion of every Operail employee is important. In the last few years, we have laid much emphasis on promoting internal communication, creating different channels and possibilities for our employees to express their opinion. We primarily use the

intranet for circulating internal information, and the bilingual quarterly in-house newsletter Igiliikur and information bulletins (if necessary in hard copy). Local managers based all over Estonia also have key information in distributing information and involving employees.

In 2019, with the purpose of involving employees, we introduced some new initiatives:

- 'idea days' held once a year where the employees can raise some questions that need to be resolved, propose solutions, form a team and then execute the solution
- strategy days for managers held once a year (about 40 managers take part)
- an appreciation gala for all employees along with the distribution of traditional awards and recognition and thanks for the best employees
- a summer event that promotes teamwork and a sense of unity for all employees (related to open-air activities and healthy lifestyles)

Management board members (the CEO and head of human resources department) visit all Operail locations in Estonia at least once a year to meet face to face with employees and give an overview of how the company is faring and familiarize themselves with the positives and negatives in each area. The heads of business units make visits to the various locations much more frequently. We encourage employees to express their opinion and have a say in the company's activities.



A total of 54% of our employees are union members: either the locomotive drivers' union or the Estonian railway workers' union. Relations with employees, including wage and work conditions, are also governed by a collective agreement with both unions, covering all of our nearly 700 employees. There were no discrimination incidents registered in 2019 involving Operail personnel (2018: 1).

*Our Chairman of the board Raul Toomsalu together with locomotive drivers Juri Murzinov and Vladimir Žarik.*



When celebrating 50 years of work at Operail, the employees receive a golden badge. In the picture: Valentina Antonova with board members Raul Toomsalu and Paul Lukkaga.

## Remuneration and recognition

Operail uses both pay grades and individual remuneration, considering work positions. Remuneration is based on position and does not depend on gender, ethnicity or other employee background (other than the employee's competence in the field). In 2019, we developed a company-wide system

for paying bonuses for good economic results as well as on the occasion of work anniversaries.

In 2019, the average salary at our company was 1,425 euros (2018: 1,317 euros; 2017: 1,168 euros). Due to the difference in positions, the male employees' average salary is 26% higher than that of the women. We review salary levels once a year and negotiations on the pay grades also take place

with the trade unions. In the case of individual salaries, we divide the positions into work 'families' and compare wage statistics with the situation on the labour market.

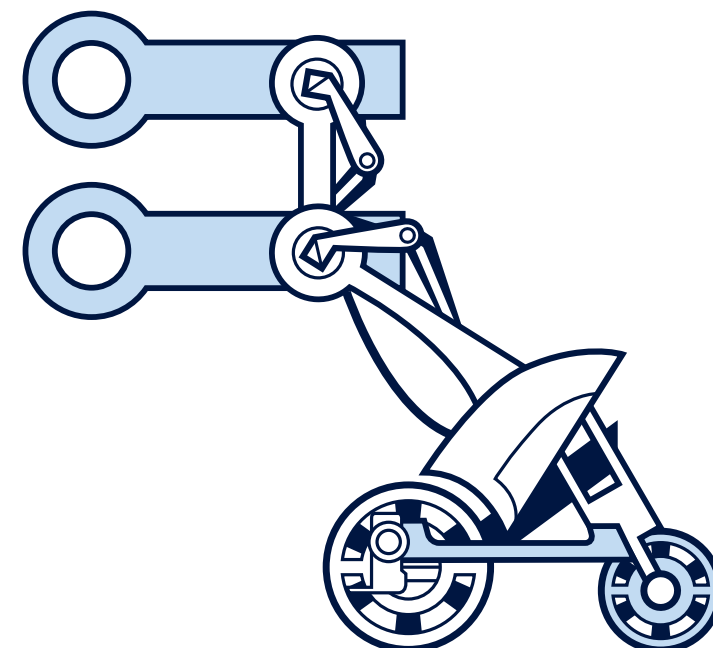
For providing additional motivation for employees, we have created a system of support, rewards and additional holiday:

- we pay monetary support for various events in the employees' personal lives: round-number birthdays starting from 50th birthdays, retirement, a son or daughter entering the first grade, Christmas, funeral for an employee or their loved one
- we give monetary rewards for all employees when the company and business units achieve good business results, and also every five years that they have worked for Operail
- we give paid additional holiday based on their seniority (starting with three full years working for Operail) and in the event of marriage, a family member's funeral and birth of a child
- we maintain employees' salaries when they are taking part in donor days, and

compensate the costs of glasses for employees who work at display equipment and sports expenses for all employees

In recognizing employees, we have retained the traditional awarding of badges to employees who have worked on the railway for 10, 20, 30 or more years. At an appreciation gala held once a year, we recognize Operail's colleague of the year, the best employees, active volunteers and safety ambassadors and select the best project in the smart solutions category. Depending on the year's achievements and objectives, the list of categories recognized may be longer.

In addition, managers can recognize their employees on a day-to-day basis by giving them a gift as a token of gratitude and announcing it to others over the intranet.





# GIVING EVEN MORE TO SOCIETY





# Contribution to the development of the sector



Employees' children celebrating a railway safety event in Valga station.

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

We make a direct contribution to the development of both our field and local communities through actively participating in selected networks, initiatives or projects.

With the help of Estonian railway companies, the main advocate for railway safety is MTÜ Operation Lifesaver Estonia.

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 in cooperation in regard to not just price and speed of service but also the importance of taking into account environmental impacts.

In cooperation with other companies, we develop the sector and the Estonian economy by being a member of the following organizations:

- Operation Lifesaver Estonia (OLE)
- 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 publicity and awareness building campaigns to increase safety on and near the rails.

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 society.

Operail's contribution to increasing railway safety in 2019

- We contributed to the following OLE publicity campaigns
  - "Dismount your bike and let the train pass", focusing on crossing tracks by bicycle



- “Be smart and let the train pass”, aimed at reminding people that they should not be doing anything that poses a distraction while crossing the railway and make sure that no train is approaching the crossing

- Christmas campaign “Let the train pass – your family wants you home for Christmas” to remind people that they should always make sure the crossing is safe when approaching the railway

- Together with other railway companies, we have organized a publicity campaign focusing on near misses to draw attention to the fact that the number of such “almost-accidents” is increasing

- We started holding lectures on railway safety in preschools and schools located in regions where Operail is a key employer: in areas in the immediate proximity to Tallinn, Tapa, Maardu, Narva, Tartu, Valga as well as Koidula border checkpoint

In 2019, 21 of our employees served as volunteers in administering railway safety courses to

schoolchildren and kindergarteners (2018: 8). During the year, we conveyed messaging on safety to 839 children (2018: 82). That is more than 10 times more than the previous year.

In 2019, a major focus was laid on raising awareness, and we have been continuing this in 2020 as well. Operail’s goal is to spread awareness of railway safety above all among children attending schools and kindergartens near railways and broadly throughout society.

### Example

*In October 2019, in cooperation with MTÜ Operation Lifesaver Estonia (OLE), we trained eight new volunteer safety ambassadors among our employees who acquired basic knowledge of the principles of railway safety and public speaking. The training course was targeted at employees who have a sense of mission and work in different Operail locations and who want to volunteer to contribute to raising people’s awareness of railway safety, including raising awareness of the risks*

*of crossing the railway and dispensing recommendations for safer crossing.*

*All of the participants in the training courses gained the right to independently give presentations on railway safety and organize activities in the field in their own geographic area.*

*In 2020, it is planned to continue training a new crop of safety ambassadors.*

### Cooperation with educational institutions

Estonia has a critical shortage of people who have studied the necessary 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 popularize education in the field. We are engaged in cooperation with a logistics seminar organized for students at the Tallinn University of Applied Sciences and TalTech students’ career event Key to the Future (Võti Tulevikku).

We believe that it is important to deal with popularizing the railway sector simultaneously with promoting Operail itself as an employer. We have agreements in place for giving lectures and providing internships, supervising final theses at the Rakvere Vocational School, TalTech and Tallinn University of Applied Sciences. In 2019, we offered an internship to six students (2018: 4).



*Operail recruiting interns at the students' career event Key to the Future.*

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

8 October was a community clean-up day at Tapa depot, with close to 60 Operail employees participating. A total of almost 4 tonnes of mixed waste, 5 tonnes of wood waste and branches and 6 tonnes of scrap metal was collected.



# MANAGEMENT REPORT





# Management report for 2019

## Consolidated Income Statement

<i>in thousands of euros</i>	Note	2019	2018
<b>OPERATING REVENUE</b>			
Revenue from client contracts	11	71 457	71 342
Other operating revenue	11	3 950	1 379
<b>Total operating revenues</b>		<b>75 407</b>	<b>72 721</b>
<b>OPERATING EXPENSES</b>			
Goods, raw materials and services	12	37 831	38 514
Other operating expenses	12	4 413	4 350
Labour costs	13	15 844	14 172
Depreciation and impairment of non-current assets	3	6 402	6 085
Other operating expenses		286	96
<b>Total operating expenses</b>		<b>64 776</b>	<b>63 217</b>
<b>OPERATING PROFIT (- LOSS)</b>		<b>10 631</b>	<b>9 504</b>
Financial income and expenses	14	-628	-280
<b>PROFIT (LOSS) BEFORE INCOME TAX</b>		<b>10 003</b>	<b>9 224</b>
Income tax on dividends		375	0
<b>NET PROFIT (LOSS) FOR THE FINANCIAL YEAR</b>		<b>9 628</b>	<b>9 224</b>
<b>TOTAL CONSOLIDATED PROFIT/LOSS FOR THE FINANCIAL YEAR</b>		<b>9 628</b>	<b>9 224</b>

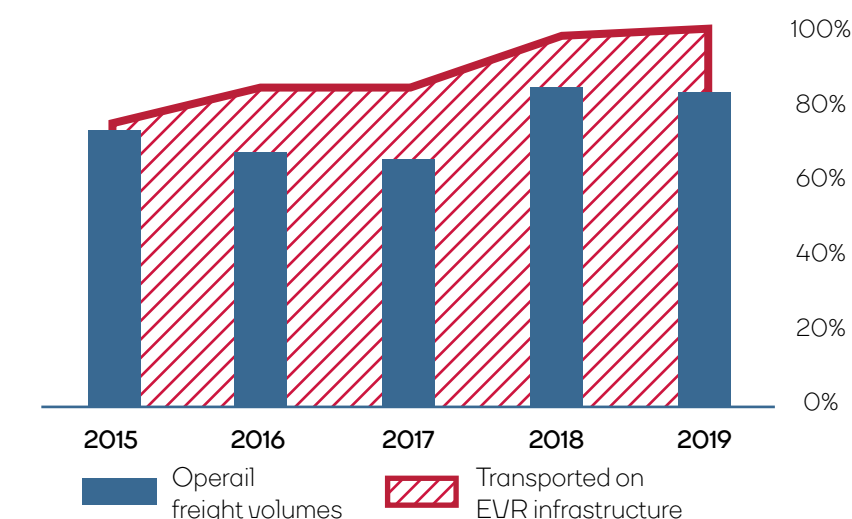
# Executive summary of activities and results for 2019

## Freight transport

### Market overview

We have longstanding experience in transporting various groups of goods. Each day, we transport transit, import and export domestic chemical goods, fertilizers, petroleum products, oil shale, timber, grain, heavy and oversized loads, solid bulk materials, palm oil, unrefined sugar and more. In 2019, we transported 100% of the goods on the AS Eesti Raudtee-administered infrastructure and 71% of it consisted of transit goods transported through Estonia.

The greatest volumes of goods transported by rail in 2019 were to and from Russia – a total of 8.1 million tonnes, which made up 61% of total freight transported. Russia is the unrivalled railway transport market leader among the CIS countries and accounts for close to 83% of railway freight transported in the CIS. It is followed by Ukraine



and Kazakhstan, each with a 7% market share. Rail transport is the most heavily used mode of transport in Russia (85%), Ukraine (79%) and Kazakhstan (64%). Since 2009, railway freight transport has seen strong growth, averaging 3.3% annually.

Latvia, Lithuania and Finland are the primary rivals to the Estonian railway transit

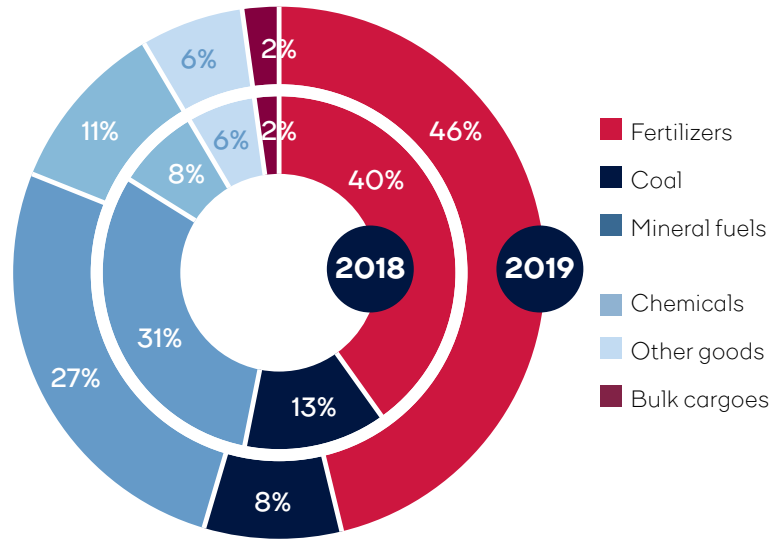
corridor. In recent years, the development of Russia's ports has had a significant influence on Estonia and its neighbouring countries. Russia's eastern Gulf of Finland port of Ust-Luga handles Russia's transit streams, largely superseding the Baltic Sea ports used in the past. The completion of Ust-Luga has also resulted in decreased transport volumes on Estonian railways.

Goods transported through Finland are mainly shipped by sea transport. The ports of southern and western Finland make up an important transit corridor for Finland together with the road and rail network, which connect the country to Russia, Finland's largest trading partner.

In the case of Lithuania's transit corridor, the Kaliningrad direction oriented to Russian transit can be distinguished from the Belarus direction. The port of Klaipeda is Lithuania's main gateway to the sea, located at the intersection of an international transport corridor and connecting sea, road and rail transport. As the Lithuanian railway transit corridor mainly services goods from Belarus or Russia en route to Kaliningrad, Lithuania's railway transit corridor cannot be compared to other countries in the region.

Shipping connections from Germany, the Netherlands or Belgium directly to ports in Kaliningrad and Russia proper can be considered an alternative to the Baltic Sea transit corridor.

Similarly to Estonia, Latvian freight transport companies also pay much higher fees than passenger transport companies and thereby support passenger travel. In Finland, the rates of the usage fees are more similar for passenger and freight companies and several times lower than in Estonia or Latvia. The use of lower rates is possible in Finland



Classification of the freight transported on the railway.

thanks to state subsidies for use of railway infrastructure.

Considering the geographic locations of the countries, Estonia's biggest competitors in rail transit are Latvia, Finland and Russia. Estonia's neighbours have the advantage of much lower railway infrastructure usage expenses.

**Long-term goal for the business unit: be the preferred logistics partner for north-south and east-west transport**

### 2019 results

Our freight volumes in 2019 were 13.2 million tonnes (2018: -1%). This made up 100% of the total volumes transported on AS Eesti Raudtee infrastructure.

Similarly to years past, the fertilizers group accounted for the greatest volume – 6.1 million tonnes (2018: +13%). Fertilizers are mainly exported to Russia, and are handled both as liquid and solid bulk goods via the ports of Sillamäe and Muuga. The next most important category was mineral fuels – 3.5 million tonnes (2018: -14%). The third largest volume was chemicals – we transported nearly one-third more than we did in 2018 – 1.4 million tonnes (2018: +30%).

# Wagon rental market



New woodchip wagons in Tartu station.

We entered the wagon rental market in 2016 when there was a significant shift in demand and supply.

**Long-term goal of the business unit: be the preferred partner in the field of rolling stock rental on the CEE and CIS market**

### 2019 results

A stabilization of demand took place on the rolling stock rental market in 2019, and rolling stock rental prices remained at a

similar level as the year before.

At the end of the financial year, 1,178 Operail-owned wagons were leased out (2018: +1%), as were 956 AS Operail Leasing owned wagons (2018: +8%) and 70 Operail Leasing Finland Oy-owned wagons (2018: +100%), a total of 2,204 wagons were leased out (2018: +8%).

In 2019, the number of wagons in Operail's joint fleet decreased, and as a result, income dropped by 16% to 1.998 million euros. In addition, the group's wagons service local transport.



# Repair and modernization

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

Our Tapa depot-based unit that provided repair service was no longer profitable; it depended heavily on the market situation in neighbouring countries. Unfortunately, we cannot compete in wagon repair services with depots where workforce, materials and parts are cheaper. This is why, in the first half of 2019, we discontinued scheduled repair services for wagons and directed the resources freed up to locomotive rebuilding – in other words, production – which has high value added.

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



Prime Minister Jüri Ratas examining the first new completed and modernized C30-M locomotive Adam.

motives 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. The locomotives have AC/DC electrical transmission. The locomotive has a Caterpillar 3512C HD diesel engines rated at 1550 kW (2079 hp) and has a top speed of 100 km/h. The speed limit for freight trains in Estonia is 80 km/h.

**Long-range goal of the business unit: become and innovative railway vehicle development company**

## 2019 results

In 2019, we performed scheduled repairs on 188 freight cars at Tapa depot, of which 141 were our own and 47 belonged to other companies. Due to economic considerations, we discontinued scheduled repair services for wagons in 2019 and directed the resources freed up to our locomotive modernization and rebuilding project. In 2019, we performed 618 scheduled locomotive repairs and 431 unscheduled locomotive repairs. In addition, that year, we completed modernization of two locomotives and started modernization of three more locomotives.

# Economic performance

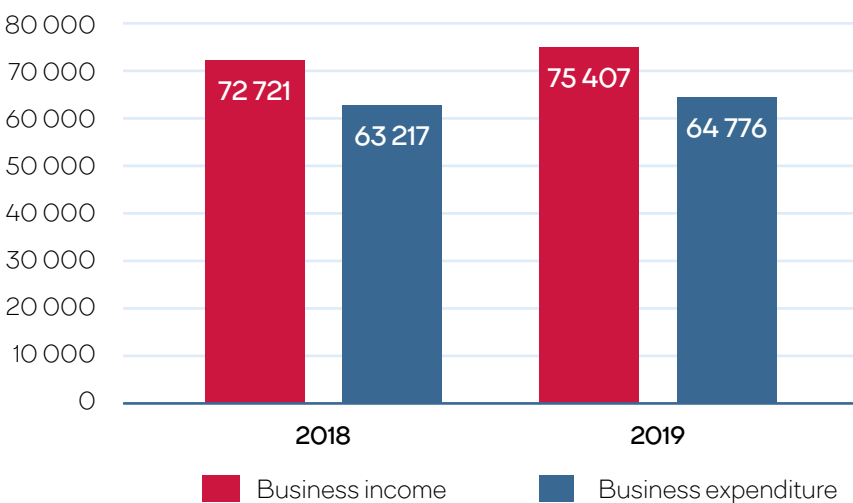
## Income and expenses

The group's operating income for 2019 amounted to 75.4 million euros (2018: +3%). Freight transport income dropped by 6% to 44.4 million euros. Income connected to wagons increased and amounted to 14.9 million euros, increasing by 3.3 million euros compared to 2018 (2018: +29%). Among other things, income from wagon rental rose to 12.9 million euros (2018: +40%) and usage fees for use of the rental fleet fell to 2 million euros (2018: -16%). Other operating income grew to 3.9 million euros (2018: +186%), of which the bulk came from the sale of non-current assets (depreciated wagons) and inventories (scrap metal and wheel chains).

The group's operating expenses grew to 64.8 million euros (2018: +2%). The increase in operating expenses was due to the increase in usage fees for wagons in the rental fleet, workforce expenses and the cost price expenses of goods sold.

Expenditure on infrastructure usage fees fell by 14% due to the lower freight transport volumes and the lower infrastructure usage

## Business income and expenditure



fees for some segments of freight transport (ntkm 2018: -10%). A total of 20.5 million euros in usage fees was paid. Fuel expenses were 8.9 million euros (2018: -5%) The drop in fuel expenses was likewise due to a lower freight transport volume. Depreciation rose to 6.4 million euros (2018: +5%) due to an increase in non-current assets.

Workforce expenses during the financial year amounted to 15.8 million euros (2018: +12%).

The group had 678 employees as of the end of 2019 (2018: 692). The decrease in the number of employees was due to restructuring of the Repairs business unit. The average gross salary of employees rose in 2019, reaching 1,425 euros a month (2018: 1,317 euros).

# Outlook for 2020

## Profitability

The group's EBITDA was 17 million euros (2018: +8%). The group's operating expenses grew to 10.6 million euros (2018: +12%).

The group's interest expenses increased by 75% due to a rise in the loan volume and totalled 940 thousand euros. Income tax expenses were 375 thousand euros (2018: 0 euros) and 1.5 million euros in dividends were paid in 2019. The group's net profit for the financial year was 9.6 million euros (2018: 9.2 million euros).

and debt burden increased ratio of net debt to EBITDA and net debt to equity capital. The group's net debt as of the end of 2019 was 72.8 million euros (2018: 24.3 million euros) and the ratio of net debt to EBITDA was 4.3 (2018: 1.6). The change in the ratio of net debt to equity capital during the reporting period was 47% to 121%.

The group is impacted above all by changes in the exchange rates of the Swiss franc, US dollar and Russian rouble. To hedge currency risks, most contracts are signed in

euros and, where possible, receipts and disbursements of foreign currency are kept in balance. In other cases, derivatives are used.

## Dividends

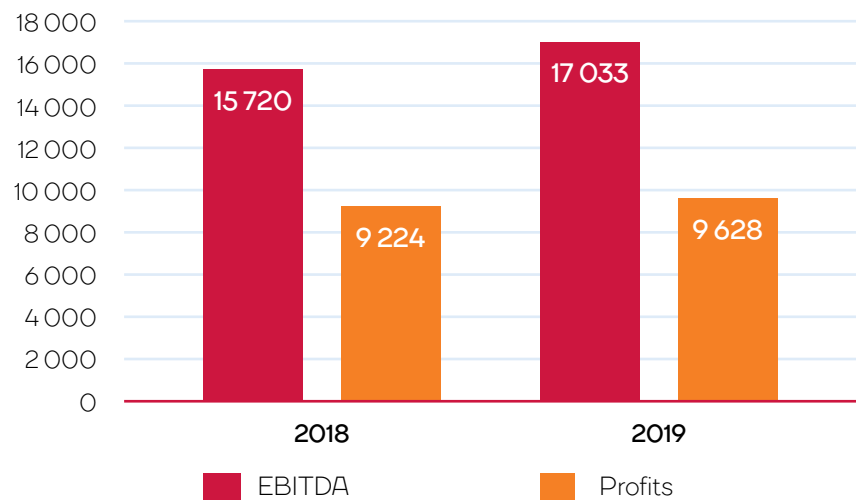
The group paid 1.5 million euros in dividends in the 2019 financial year (2018: 0 euros). The payment of dividends is decided by the group's general meeting as represented by the Minister of Economic Affairs and Communications.



## Investments

In 2019, the Operail group invested a total of 60.7 million euros (2018: 27.8 euros). The main investments were the acquisition of wagons (31.3 million euros), prepayments made for Finnish locomotives (21.6 million euros), modernization of C30-M locomotives (6.4 million euros) and overhauls of rolling stock (1.3 million euros). The group's liquid assets as at the balance sheet date amounted to 4.6 million euros. The growth of investments

## EBITDA and profits



## Freight transport

We forecast a freight transport volume of 11.1 million euros for 2020 (-16% compared to 2019).

The main reason for the fall in the freight transport volume is a substantial decrease in oil shale transport and Belarusian oil products volumes. However, we are forecasting an increase in the goods sector of fertilisers and an increase in the volumes of our multimodal freight.

## Wagon rental market

Supply has increased on the wagon rental market and market prices have stabilized. Compared to previous years, we plan to reduce investments into the wagon fleet. With regard to wagon rental income, we forecast growth for 2020, but wagons will make fewer sorties from the joint fleet and income will be lower in 2020 than it was in the previous year.

## Repairs

We do not plan to continue foresight wagon repair services in 2020; rather, we will focus on modernizing locomotives and plan to increase the number of decoupling repairs and major repairs, which will extend the lifespan of the existing locomotives. We forecast that in 2020, we will complete five modernizations and four decoupling repairs and the number of scheduled maintenance and unscheduled repairs will remain the same.



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