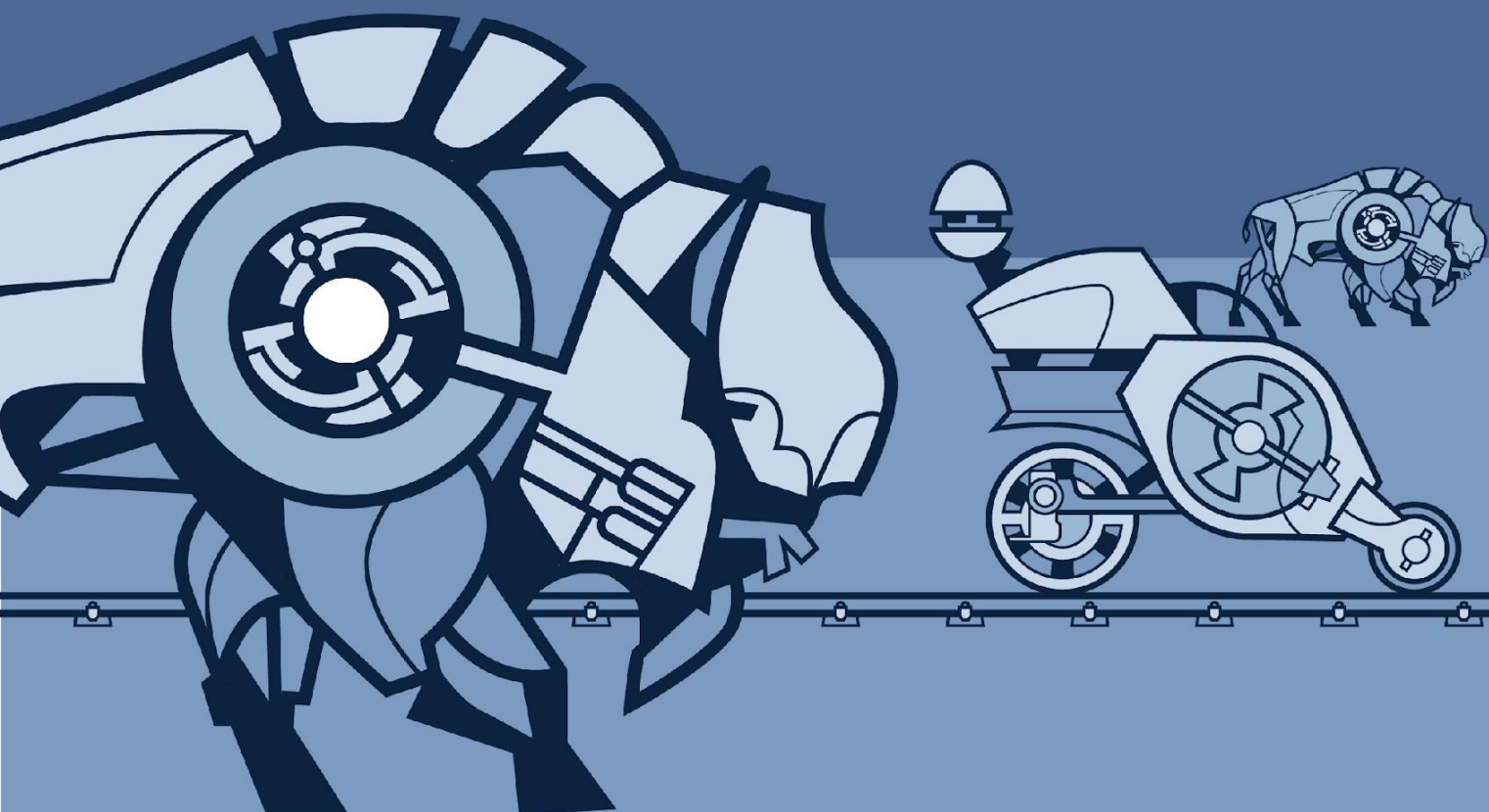




Consolidated Annual Financial Statements
for financial year ended on 31.12.2022

AS OPERA RAIL



Contact details:

Registered office: Metalli 3, 10615 Tallinn, Estonia
Commercial Register code: 11575850
Beginning of financial year: 01.01.2022
End of financial year: 31.12.2022

Telephone: +372 615 7600
E-mail: info@operail.com
Website: www.operail.com
Area of activity: organisation of rail transport
Auditor: AS PricewaterhouseCoopers

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Management Report

Information about the Group

AS Operail with its subsidiaries (hereinafter referred to as Operail) is the oldest and largest rail freight transport company in Estonia with its experience dating back to 150 years. Until the end of 2022, the companies of the Operail Group operated in three lines of business:

- Freight transport in Estonia and Finland
- Wagon and locomotive rental on the 1,520 mm and 1,524 mm railway
- Maintenance and repair of wagons and locomotives

The sole shareholder of AS Operail is the Republic of Estonia. In 2022, the company was in the area of administration of the Ministry of Economic Affairs and Communications. AS Operail owns through Operail Holding OÜ 100% of all the subsidiaries. The figure below sets out the Group structure as at 31.12.2022.



Key financial indicators (millions of euros)

The indicators set out in the table below represent the total of both continuing and discontinued operations together with assets and liabilities held for sale. In the annual financial statements, discontinued operations together with assets and liabilities held for sale (Note 20) have been separated from the results of the Group.

Year	2021	2022
Operating revenues	73.0	60.9
EBITDA	17.2	9.7
Net loss	-5.0	-15.7
Net profit/loss before impairment of non-current assets	4.0	-2.5
EBITDA margin	24%	16%
Net loss margin	-7%	-26%
Return on equity	-7%	-26%
Equity ratio	39%	34%
Net debt	77.1	62.3
Net debt/EBITDA	4.5	6.4

Formulas:

$EBITDA = \text{Operating profit} + \text{Depreciation and impairment of non-current assets}$

$\text{Net profit/loss before impairment of non-current assets} = \text{Net loss} + \text{Impairment of non-current assets}^1$

$EBITDA \text{ margin} = EBITDA / \text{Operating revenues}$

$\text{Net loss margin} = \text{Net loss} / \text{Operating revenues}$

$\text{Return on equity} = \text{Net loss} / \text{Total average equity for the reporting period}$

$\text{Equity ratio} = \text{Equity at the end of the reporting period} / \text{Assets at the end of the reporting period}$

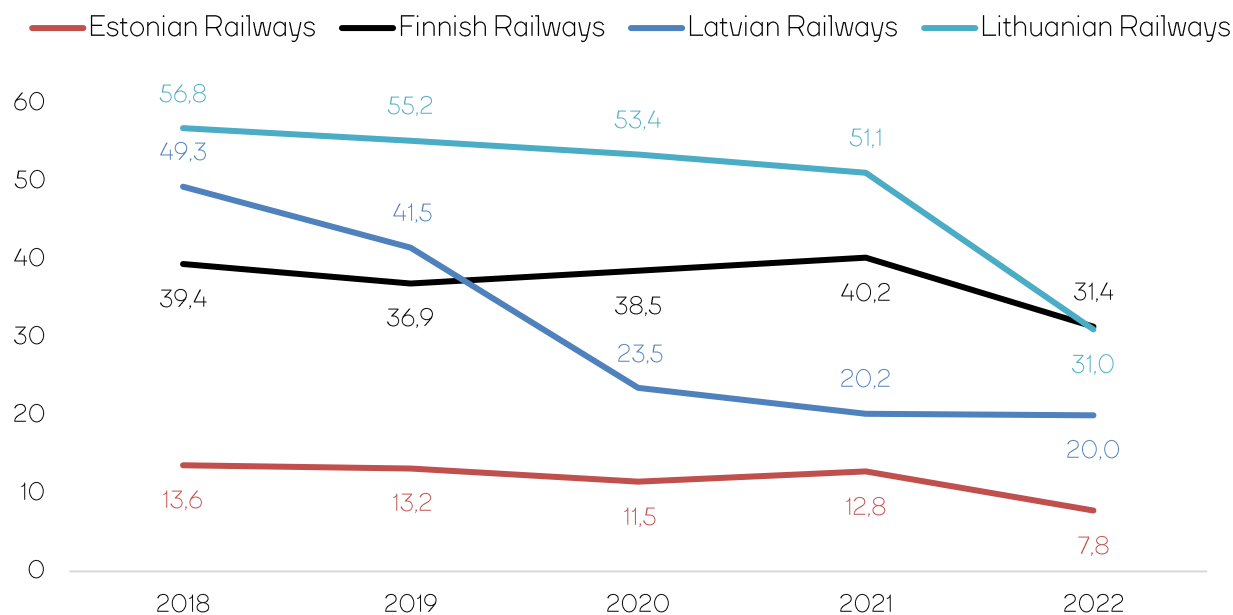
$\text{Net debt} = \text{Total extra-group lease liabilities and borrowings at the end of the reporting period} - \text{Cash at the end of the reporting period}$

¹As at 31.12.2022, non-current assets were revalued in the amount of 13,256 thousand euros (2021: 8,968 thousand euros). More detailed information is disclosed in Note 3 to the financial statements.

Overview of events during the reporting period

Overview of events in Estonia and neighbouring countries

Freight volumes in the Baltic States and Finland (millions of tonnes)



Sources: Estonian Railways, Latvian Railways, Lithuanian Railways, Statistics Finland

Comments: In 2022, the freight volume of Latvian Railways includes only the volume transported on Latvian railroads by SJSC Latvijas Dzelzceļš and the freight volume of Lithuanian Railways includes only the volume transported on Lithuanian Railways by AB LTG Cargo.

The freight transport volume on the Estonian public railway as a whole was 7.8 million tonnes in 2022 (-39% compared to 2021). The most important commodity groups were liquid mineral fuels (1.6 million tonnes; -43% compared to 2021), oil shale (1.6 million tonnes; +110% compared to 2021) and fertilisers (1.1 million tonnes; -82% compared to 2021).

The freight volume of Latvian operators amounted to 20.0 million tonnes in 2022 (-1.0% compared to 2021). The most important commodity groups were coal (4.3 million tons; +97% compared to 2021), oil and oil products (3.8 million tonnes; -31% compared to 2021) and foodstuffs and animal feed (2.9 million tonnes; +24% compared to 2021).

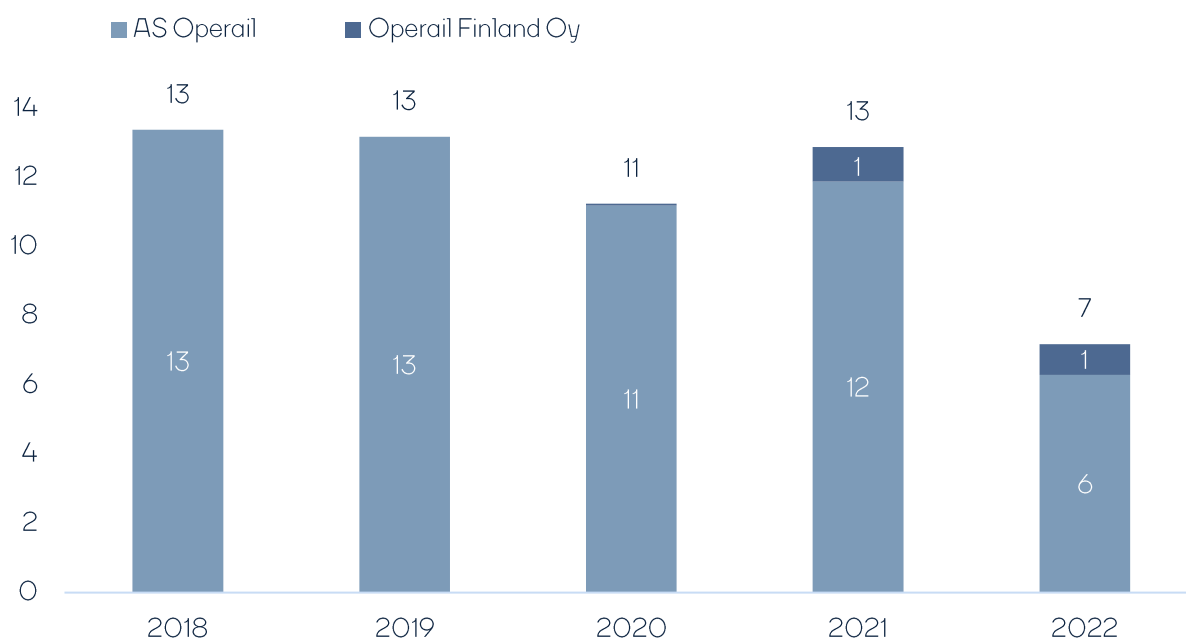
The freight volume of Lithuanian operators amounted to 31.0 million tonnes in 2022 (-39% compared to 2021). The most important commodity groups were oil and oil products (9.6 million tonnes; +3% compared to 2021), construction products (5.7 million tonnes; -27% compared to 2021) and fertilisers (3.6 million tonnes; -79% compared to 2021).

The freight volume of Finnish operators amounted to 31.4 million tonnes in 2022, which was 22% less than in 2021.

Overview of freight transport of Operail

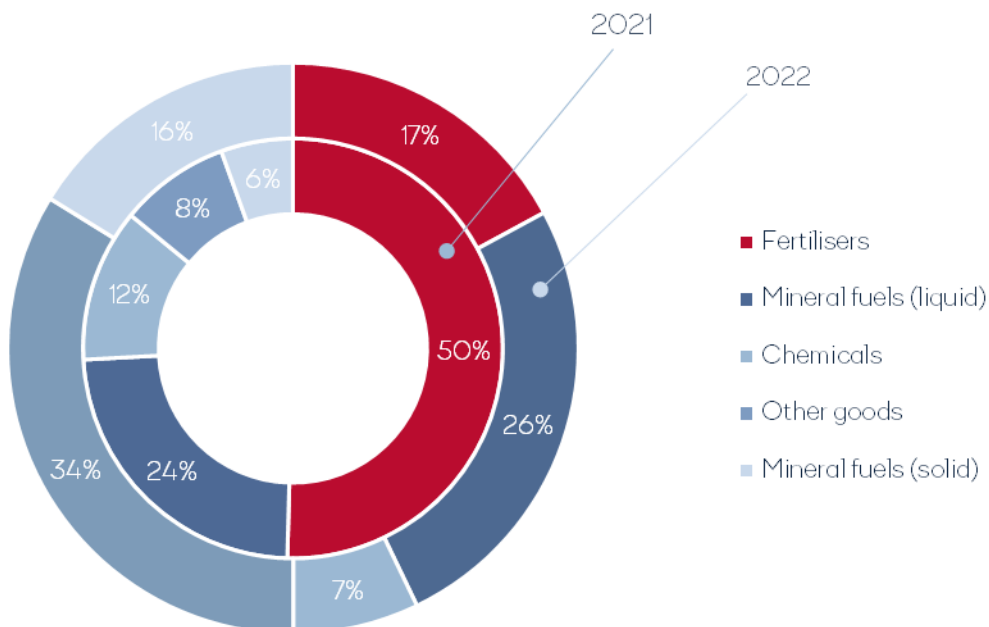
In 2022, the total freight transport volume of the Operail Group in Estonia and in Finland amounted to 7.2 million tonnes (-44% compared to 2021). This made up 81% of the total freight carried on the infrastructure of AS Eesti Raudtee. Of the Finnish freight volume, the share of Operail accounted for 3%.

Freight volume (millions of tonnes) of the Operail Group



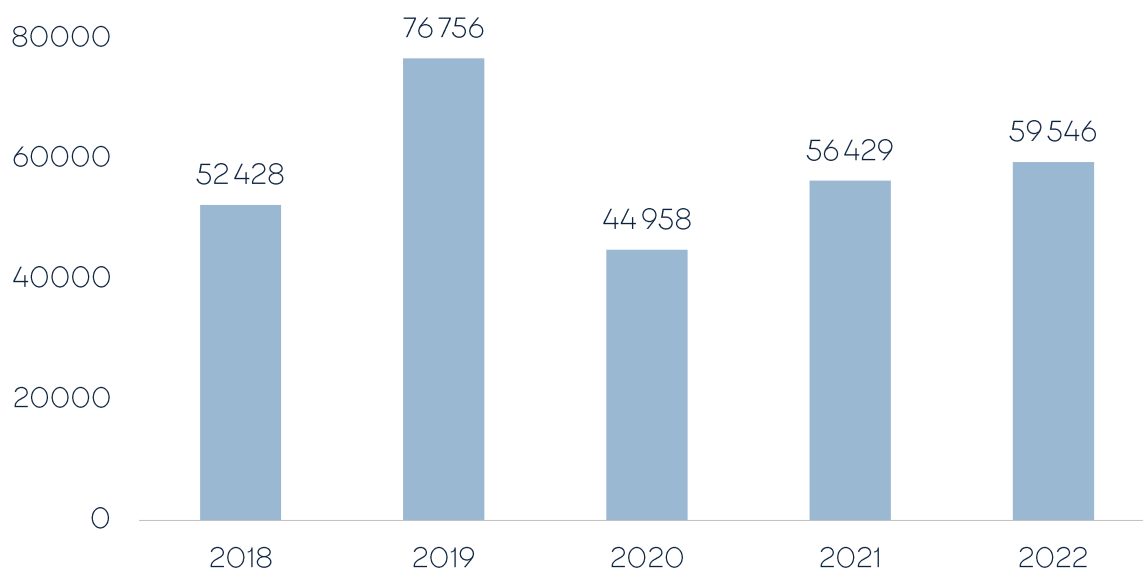
The decline in the freight volume of Operail in Estonia was mainly related to the interruption of the transit of Russian fertilisers and chemicals and Belarusian oil products due to the sanctions imposed on these countries. The commodity group of liquid mineral fuels accounted for the greatest volume – 1.6 million tonnes (-43% compared to the same period in 2021). The second commodity group in terms of freight volume was that of fertilisers with 1.1 million tonnes (-82% compared to the same period in 2021). The third commodity group in terms of freight volume was that of solid mineral fuels with 1.0 million tonnes (+55% compared to the same period in 2021).

Breakdown of goods transported by Operail



The freight volume of container goods increased to 59,546 TEU in 2022 (+6% compared to 2021). The volumes increased in the case of multimodal transport within Estonia by 33% and decreased in the transit of fertilisers by 31%. In the case of Muuga-Vorotynsk container train, the volumes decreased by 58%.

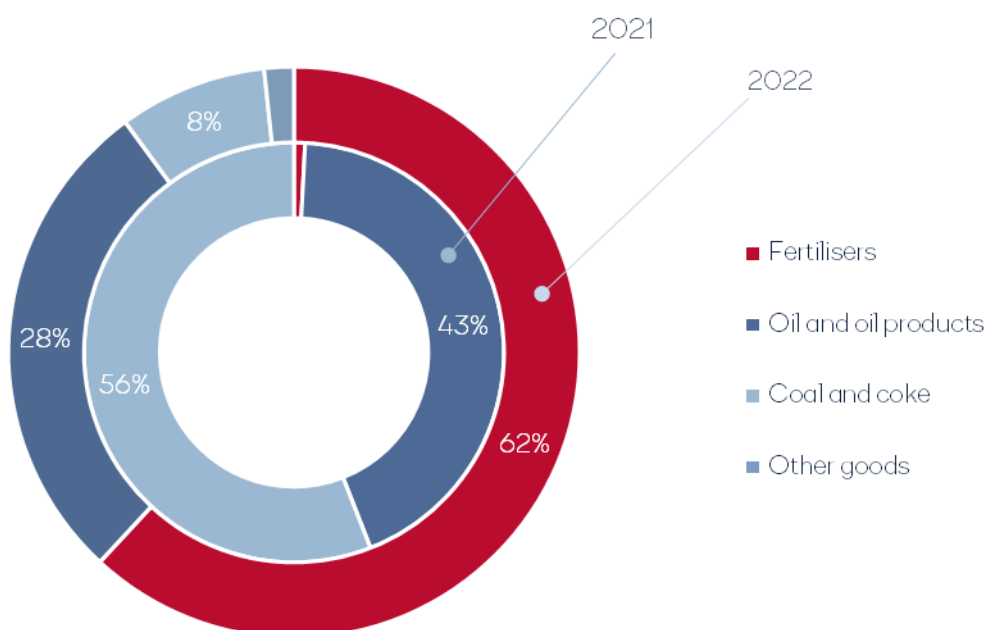
Container transport in Estonia (TEU)



The most significant decline in the freight volume for Operail occurred in the transport to and from Russia: the total volume being 3.6 million tonnes (-55% compared to 2021). The freight volume with Lithuania was 0.8 million tonnes (+37% compared to 2021), with Latvia 0.2 million tonnes (-26% compared to 2021), with Belarus 0.2 million tonnes (-87% compared to 2021), with Kazakhstan 0.2 million tonnes (+192% compared to 2021), with Uzbekistan 27 thousand tonnes (+23% compared to 2021) and with Ukraine 15 thousand tonnes (-83% compared to 2021). Transit accounted for 61% (2021: 80%) in the total freight volume.

In 2022, Operail Finland transported mostly fertilisers and various oil products. The number of employees grew by 7 in 2022, reaching 45. Although the total freight volume in Finland in 2022 was comparable to 2021, freight volumes in Finland fell to practically zero in the middle of the year. At the end of the year, transport of fertilisers and methanol started, which helped improve the result. As at 31.12.2022, Operail Finland has been recognised in the statement of financial position as assets and liabilities held for sale and in the income statement as discontinued operations (Note 20).

Breakdown of goods transported by Operail Finland



Overview of maintenance and repair of locomotives and wagons of Operail

The depots of Operail Repairs OÜ in Muuga and Tapa service mainly companies belonging in the Operail Group. The locomotives undergoing maintenance and repair belong to the Group both in Estonia and in Finland. In 2022, the modernisation of locomotives also continued – four C30-M locomotives were completed. In the reporting period, two new painting technologies were introduced: a new type of Habins wagon and passenger train painting. Scheduled repairs of wagons were also carried out, and wagon wheelsets were formed and repaired.

Overview of rolling stock lease of Operail

At the end of 2022, AS Operail Leasing had in total about 2,000 wagons (2021: about 2,500 wagons) and three locomotives (no changes compared to 2021). The Management Board monitored the situation regularly and, if possible, directed wagons away from high-risk regions. Most of the wagons in Ukraine were also left untouched by the war and their sale process was prioritised. In the case of wagons located in Ukraine, write-downs were made in the amount of 0.1 million euros. Operail Leasing Finland Oy had as many wagons as at the end of the previous year (about 200 wagons). At the end of the year, the number of wagons of AS Operail Leasing reduced by about 500 wagons due to the owner's decision to exit the wagon lease business. At the end of 2022, 92% of the wagons were covered by leases (2021: 94%). As at 31.12.2022, the wagon lease business of AS Operail Leasing has been recognised in the statement of financial position as assets and liabilities held for sale and in the income statement as discontinued operations (Note 20).

Performance results of continuing operations

In the income statement of the Group, the wagon lease business of AS Operail Leasing and freight transport of Operail Finland Oy in Finland have been recognised as discontinued operations. The revenues and expenses of discontinued operations are set out in Note 20. Major changes in the revenues and expenses of continuing operations compared to 2021:

- The revenues related to freight transport decreased by 13.5 million euros due to the decline in freight volumes. At the same time, cost groups directly related to freight volumes, including infrastructure usage charges, fuel costs, rail transport services, rolling stock lease costs and transport costs, also decreased in total by 5.9 million euros. Cumulative impact on profit – 7.6 million euros.
- The wagon lease revenues of Operail decreased by 1.1 million euros due to the decline in freight volumes.
- Lower freight volumes also had an impact on revenues from rolling stock repair and maintenance. The revenues reduced by 0.4 million euros.
- The increase in other operating revenues by 0.6 million euros is due to higher revenues from sale of scrap metal and extraordinary revenues from fines.
- In the financial year, the Group engaged actively in aligning business volumes and fixed costs. Maintenance expenses reduced by 0.1 million euros. Other operating expenses were 0.6 million euros higher mainly due to lower capitalisation of costs and revaluation of receivables. As in 2022 Operail continued the process of selling non-strategic businesses, consulting and legal expenses remained at a level comparable to 2021.
- Labour costs increased by 0.1 million euros. The reduction in the number of employees resulted in a lower labour cost base, but was accompanied by exceptional redundancy costs.
- The depreciation increased by 0.7 million euros due to the impairment of the registered shunting locomotives and non-current assets.
- Income tax expenses were lower by 0.4 million euros in the reporting period due to the fact that no dividends were paid.

Investments

In 2022, the Group invested a total of 2.2 million euros (2021: 13.7 million euros). Main investments were made in the modernisation, major repairs and equipment of locomotives. In 2023, only necessary investments will be made, particularly in major repairs and equipment, which ensure that the company is able to continue as a going concern.

Dividends

The payment of dividends is decided by the General Meeting of AS Operail. Dividends are paid out taking into account the investment needs and financial results of the company and provided that the optimal capital structure is preserved. In the financial year, the company paid no dividends (2021: 2.2 million euros).

Future outlook

The military action in Ukraine, which began on 24 February 2022, and the sanctions imposed have had an adverse impact on the business volumes of the Group. In accordance with the decision of the sole shareholder of AS Operail, since 01.01.2023 Operail no longer transports goods originating from the Russian Federation and Belarus. As Operail Finland Oy transports non-sanctioned goods of Russian origin, and the existence of business volumes fosters the sale of the company as a whole, this restriction has not been applied to Operail Finland Oy on the assumption that the sale will be completed at the beginning of 2023. The decision of the sole shareholder to terminate the transport of non-sanctioned goods of the Russian Federation has an additional adverse impact. The operating loss and repayment of the remaining lease liabilities of the Operail Group are covered by revenues from the sale of non-strategic businesses, but this is a temporary solution. In the short term, equity will not fall below limits. In the long term, it is necessary to find solutions for how to ensure the sustainability of freight transport by rail in Estonia and to encourage its growth. The management is engaged in finding a replacement for restricted volumes and aligning fixed costs and remaining business volumes. According to the expectations of the sole shareholder, the aim of Operail is to maintain the carriage capacity on the Estonian railways as well as the rolling stock repair resource and do that profitably. Additional information about events after the balance sheet date is set out in Note 21.

Risk management of the Group

To hedge currency risks, the majority of contracts is made in euros and, where possible, the exchange rate risk arising from foreign currency receipts and disbursements is balanced. The Group is exposed above all to changes in the exchange rates of the Swiss franc in connection with using the wagons of the joint fleet, but these volumes have fallen significantly since the start of the military action in Ukraine.

The Group is exposed to changes in base rates. The volume of the lease and loan liabilities of the Group has fallen considerably in connection with the sales of non-strategic businesses. Interest rate risks are covered in more detail in Note 2.2 to the financial statements.

Social Responsibility

The development of the railway sector is currently influenced the most by two keywords: environmental sustainability and implementation of digital solutions. Companies all over the world are looking for solutions to make freight transport more sustainable, reduce the climate impact of the transport sector, develop convenient door-to-door services for clients (multimodality) and increase efficiency and improve the client experience through digital solutions.

The greatest responsibility of Operail in society is to take goods to their destination intact, trying to reduce the damage caused by transport to the health of people and to the surrounding environment. Our responsible operation is based on three pillars:

- Our service is safe, of high quality and low environmental impact.
- Our organisational culture is diverse, open and developing.
- We contribute to communities through employment outside big cities and raising awareness of railway safety.

Environmental conservation and carbon footprint

Rail transport is the most sustainable type of land transport known today. Compared to road transport, rail freight transport with a diesel locomotive uses up to four times less fuel and emits up to 75% less CO₂. Replacing road transport with rail transport is more beneficial for the environment and also helps improve traffic safety because reducing the number of lorries on the road makes the roads safer for the other road users.

Therefore, the goal established by the “Estonian Transport and Mobility Development Plan 2021–2035” is that 40% of the goods will be transported by rail in 2035. Operail as a strategic rail freight transport company owned by the state plays a key role in achieving this goal.

To bring goods, which have until today been transported on the road, more and more to railway, Operail offers multimodal freight transport service where in addition to rail transport we also organise transport of goods to railway for the client. The aim is that the goods move as long distance as possible on railway and as small distance as possible on road. In 2022, we increased the volume of multimodal transport by 29.7% (2021: 17.3%), bringing 10,144 (2021: 7,820) containers from road to railway – which means bringing more than 20,000 lorries from road to railway. In 2023, we plane to continue the trend of the last four years and further increase our multimodal container train volumes.

In 2022, we started to expand our multimodal container train service to the international market. The purpose of the Amber Train cooperation project between Estonian, Latvian and Lithuanian partners, i.e., the Muuga-Kaunas-Muuga container train, is to bring the freight corridor between Northern and Southern Europe through the Baltic States from road to railway. On 13.09.2022, the first trial train departed from Muuga for Kaunas and from there along the European track gauge for Duisburg. In 2023, we will look for ways to launch the Amber Train regular service.

Our goal is to reduce all emissions causing air pollution. This means using new technologies on locomotives and increasing the energy efficiency and overall efficiency of transport and support

processes. The share of green energy in the energy consumption of Operail in 2022 was 91% (2021: 87%).

In 2022, we started several new projects aimed at reducing the carbon footprint: renewal of the Operail car fleet, building electricity points for winter heating of locomotives previously powered by diesel. We will continue with these projects in 2023.

In 2022, we also continued to build new, more environmentally sustainable C30-M universal locomotives from old American locomotives at the depot in Tapa. During the year, four rebuilt locomotives were completed. We significantly reduced the amount of energy consumed for the production of the new locomotive by replacing the more energy-intensive parts in the production cycle with parts already produced once.

Digitalisation of work and paperless management also constitute part of the development of environmentally friendly services. In spring 2021, Operail started to transfer to the RailCube freight transport information system. In 2022, we transferred the entire process of train planning and movement to RailCube. A good example of the paper documents lost therethrough is the route records, which we printed out in the average quantity of 40 paper sheets a day before the transfer to RailCube and, after the transfer, there are no longer any route records on paper. In 2023, we will continue the transfer of work processes to RailCube. After the final commencement of use of the programme, the needs of Operail will be met without paper – only documents needed by clients will remain on paper. The digitalisation of loading schemes of non-standard goods, for which we created the necessary signature application ourselves, also led to big savings in paper documents in 2022.

Work and railway safety

Our focus is on the safety of people, goods and the environment on the railway, as well as a safe, secure and healthy workplace at Operail.

In the field of railway safety, no serious accidents or accidents within the meaning of the Railways Act occurred in 2022 due to the fault of Operail.

To ensure railway safety, we implement activities which are divided into technical and safety culture measures. Traffic safety begins from employee training. To this end, professional requirements and regular examinations as well as training courses are in place to develop the knowledge and skills of employees. For locomotive drivers, we have created assistive systems that help them choose correct driving techniques and thereby reduce the stress of employees and improve carbon emissions thanks to lower fuel consumption.

Locomotives are equipped with technical systems that detect potential hazardous situations (e.g. driver fatigue or fire extinguishing system) and self-activating automatic assistance measures. On-board recorders of driving techniques have been set up to assess the conformity of the driving techniques with the requirements, assist in the assessment of the hazardous situations that have occurred and use this knowledge to train employees to prevent similar incidents in the future.

We have specified the maintenance requirements for locomotives (including video and radio systems) to ensure the performance of the work equipment. Cooperation platforms have been set up where other authorities have a control function over the performance of the communication systems. This has led to a reduction in the number of failures in the operation of video systems and radio communications.

For wagons loaded with a special scheme, we have improved the working process, the training of employees and loaders, as well as the current check.

To prevent environmental pollution, we have upgraded the existing pollution control equipment and standardised its contents so that each site has the same set of equipment with the same design, which helps resolve possible pollution incidents faster and more efficiently.

In order to acquire the best practices in the railway sector, we have initiated cooperation with other railway companies with whom we meet regularly on safety issues, exchange experience and share experience of the measures implemented.

A contribution to railway safety outside the company was also provided by the ten voluntary safety ambassadors of Operail who visited schools, nursery schools and children's events in Estonia in order to introduce railway safety. In 2022, we trained a total of 260 children.

With regard to occupational safety, we consistently implement risk analyses, regular employee feedback and ongoing inspections of the working environment. For example, quarterly meetings of the working environment council and monthly workplace inspections are held to identify and immediately mitigate safety risks (from workroom to personal protective equipment and workwear). In order to protect the health of our employees, we have installed defibrillators, i.e. AEDs, in our workplaces all over Estonia, so that in the event of an unexpected health disorder, our trained staff can provide assistance as fast as possible.

In 2022 as in 2021, three occupational accidents occurred in Operail. The Lost Time Injury Frequency Rate (LTIFR) in 2022 was 2.46. In order to improve the LTIFR indicator, we have put in place 62 different activities, of which 11 are aimed at improving the overall safety culture, 16 are targeted at occupational safety and 35 at traffic safety.

In the case of changes to the existing work processes as well as to technical solutions, we have introduced a materiality assessment process that allows us to identify potential risks at the planning stage and proactively mitigate them.

In 2022, we carried out a safety audit of Operail. According to the results of a survey, 98% of the employees are satisfied with the safety information provided at regular exercises and 93% of the employees are satisfied with the content and clarity of the safety information provided at the quarterly company-wide Safety Wednesdays. 94% of the employees noted that they always follow safety rules.

Employee well-being and development

Operail provides jobs for people who have received specific training that is very important from the point of view of the infrastructure and security of Estonia. Railway expertise in Estonia is almost entirely located in railway companies on the spot, rather than e.g. in institutions of higher education or in vocational schools. Railway companies train their own staff. The employees of Operail are experts with an average of 20 years of experience, whose knowledge is valued throughout the 1,520 km railway.

Operail is an important employer in regions with a lower standard of living in Estonia and in areas close to the border with a predominantly non-Estonian population: in Ida-Viru County, Tapa, Muuga and Maardu, Valga. We pay all employees in peripheral areas a salary that is equal to that of employees holding the same position in areas close to Tallinn. We pay special attention to involving our employees in the

Estonian-language information and communication space in order to improve the coping and integration of employees in Estonian society. We also provide our Russian-speaking employees with socially important information (e.g. on the coronavirus and the war in Ukraine) from the Estonian-language information space.

Although in 2022 men accounted for 69% and women 31% of the staff of Operail, the share of women among drivers is 44%.

The development of employees is important for Operail, and a separate training manager works in Operail in order to ensure a broad-based training programme. In 2022, we continued to provide training in the development of digital competence among the employees who do not use smart devices on a daily basis. In total, almost 200 employees have attended a training on digital competence over the past two years. The primary aim of the training is the digital transformation and commencement of use of RailCube in Operail; however, the benefit derived from training is wider than that gained from work because the employees who had not used computers before obtained better knowledge for acting in the modern digital world. In 2022, the first-line managers of Operail also underwent training in business digitalisation and digital transformation project management. In in-house training events, we taught our staff how to make better use of modern digital tools. In order to ensure the quality and safety of the work of Operail, 12 wagon supervisors and train drivers underwent in-service training to obtain the next level of qualification. For managers and office staff, we provided with teamwork, time management and management training. At Operail, we take into account the different training needs of our employees and recognise that motivational development needs to be offered to almost four generations.

In the field of health and safety, in 2022 we offered all employees the opportunity to attend six lectures on mental or physical health. In addition, a practical workshop was held on neuroscience, brain functions and the links between emotions. In 2022, we continued to promote the health of our employees by offering all employees the opportunity to use sports and health benefits or private health insurance. In May and October, a company-wide physical activity month was held to promote physical activity motivation and habit among the staff. We also offered everyone the chance to participate in various sports competitions as a member of the Operail team.

In 2023, the main areas of training in Operail will be management (including change and project management), raising awareness of digitalisation and promoting an internal training culture.

We remember our employees in all celebrations. We organise both team and company-wide joint events. Once a year, we recognise our best employees and employees' self-initiative.

At the end of 2021 and at the beginning of 2022, we carried out a satisfaction survey among our employees. According to the results of the survey, 62%, i.e. the majority, of the employees of Operail are committed to their work. The share of disengaged and low-commitment employees in Operail is very low – 2%. As many as 79% of the employees recommend Operail as an employer.

Operail as an ethical and open-minded company

Our goal is to be a company with honest and law-abiding people that is open and oriented and visible to society, including behave ethically, communicate proactively with stakeholders and the wider public, be transparent in regard to the risks involved and take responsibility for solving local problems in the communities where we operate.

Operail is committed to respecting the privacy and confidentiality of its business partners, while taking into account the need to be aware of the nature and background of the economic activities of its business partners. In view of the foregoing, in 2022 we created an updated procedure for a background check of our partners.

In 2022, compliance with the sanctions imposed by the European Union became an important issue in society. As the activities of Operail to date have been largely related to the east-west transport of goods in transit, the sanctions had a significant impact on the operation of the company. In addition to their day-to-day work, the employees of Operail contributed to finding out and interpreting all the sanctions and to background checks of clients and goods, which resulted in Operail successfully complying with all the sanctions.

As in 2021, the number of frauds, ethics and corruption cases in Operail was zero in 2022, and there were no cases of non-compliance with laws and regulations with significant impact.

In 2023, we plan to pay more attention to “whistleblowing” and whistleblower protection. We will create a whistleblowing policy in accordance with the requirements of the EU Directive and provide training for staff. We continue to welcome tips on suspected corruption through a publicly available anonymous whistleblowing channel.

Report on Good Corporate Governance

General Meeting

During the 2022 financial year, the Republic of Estonia was the sole shareholder of AS Operail and thus there is no need to address equal treatment of shareholders as one of the principles of GCG in this report.

On 03.05.2022, the shareholder expectations for AS Operail were approved and they were updated on 12.12.2022 and 23.12.2022. The approved shareholder expectations have been published on the website of AS Operail.

On 10.06.2022, the Republic of Estonia as the sole shareholder, under law represented by Maris Lauri, the Minister of Justice in the capacity of the Minister of Economic Affairs and Communications, passed the resolution of the Annual General Meeting approving the annual financial statements of AS Operail for 2021 and coverage of the net loss for 2021. On 08.11.2022, the sole shareholder extended the authorisations of Indrek Gailan, a member of the Supervisory Board of AS Operail, by three years.

Supervisory Board

In the financial year, the Supervisory Board of AS Operail consisted of five members. In 2022, the following persons served on the Supervisory Board of AS Operail:

- 1) Leon Jankelevitsh from 24.05.2020, as the Chairman of the Supervisory Board from 03.06.2020
- 2) Indrek Gailan from 21.11.2019
- 3) Kaido Saar from 24.05.2020
- 4) Tarmo Porgand from 24.05.2020
- 5) Siret Liivamägi from 01.06.2020

The authority of the Supervisory Board arises from the company's Articles of Association: the Supervisory Board supervises the activities of the Management Board, participates in the planning and management of the Group's activities and decides on transactions outside the scope of day-to-day business activities. The Supervisory Board acts independently and in the interests of the Group and the shareholder.

In 2022, 24 meetings of the Supervisory Board were held and 8 resolutions were adopted without convening a meeting. The Supervisory Board adopted a total of 46 resolutions in 2022.

Members of the Supervisory Board followed the procedure for the prevention of conflicts of interests.

As of 20.02.2013, an Audit Committee consisting of three members has been established from among the bodies of the Supervisory Board and its function is to advise the Supervisory Board on matters related to supervision, including the effectiveness of risk management and internal control, the annual financial statement and audit process, the independence of the statutory auditor, and the compliance of operations with requirements. The rules of procedure of the Audit Committee were updated by a resolution of the Supervisory Board of AS Operail of 20.09.2022.

Erik Štarkov (Chairman), Indrek Gailan and Leon Jankelevitsh were members of the Audit Committee in 2022.

The sole shareholder has set the remuneration of the members of the Supervisory Board and the Chairman of the Supervisory Board as proposed by the Appointments Committee. Besides the foregoing, additional remuneration is paid to the members of the Supervisory Board who are members of the Audit Committee for attending the meetings of the Audit Committee. The remuneration of the Chairman of the Audit Committee has been determined in accordance with an agreement between the parties.

Management Board

The Management Board represents the company and manages the daily economic activities of the company independently and in accordance with the requirements arising from the legislation and the Articles of Association. The Management Board adopts resolutions related to the activities of the company and independently performs all transactions that are not within the powers of the General Meeting or the Supervisory Board by virtue of law or the Articles of Association. The rights, obligations and liability of members of the Management Board are set out in the agreements entered into with the members of the Management Board.

By the resolution of the Supervisory Board of AS Operail of 27.05.2022, member of the Management Board Paul Priit Lukka was removed and Merle Kurvits was elected as a new member of the Management Board on 07.11.2022. In the meantime, the Management Board consisted of one member: in the period from 28.05.2022 to 06.11.2022, the member of the Management Board was Raul Toomsalu.

The Management Board followed the requirements of the GCG, thereby taking into account the specifications arising from the fact that AS Operail is a state company subject to the specifications provided for in the State Assets Act.

Subsidiaries

AS Operail has a 100% holding in Operail Holding OÜ. Operail Holding OÜ has a 100% holding in the subsidiaries belonging to the Group: AS Operail Leasing and Operail Repairs OÜ, Operail Leasing Finland Oy and Operail Finland Oy.

Operail Holding OÜ

Operail Holding OÜ was established on 20.05.2021. Members of the Management Board are members of the Management Board of AS Operail. The company has no Supervisory Board. The function of the subsidiary is to hold the shares of the other subsidiaries. As Paul Priit Lukka left the Group on 28.05.2022, Raul Toomsalu is the only member of the Management Board of the company as of that date.

As of 09.08.2021, the company has one share with a nominal value of 3,000 euros which is held by AS Operail.

AS Operail Leasing

A previously established company whose shares were at first held by AS Operail. The Chairman of the Supervisory Board of the company is Raul Toomsalu, the Chairman of the Management Board of AS Operail, and the members of the Supervisory Board are Leon Jankelevitsh, the Chairman of the Supervisory Board of AS Operail, until 27.05.2022 Paul Priit Lukka, a member of the Management

Board of AS Operail, and since 28.05.2022 Kaido Saar, a member of the Supervisory Board of AS Operail. Valentin Pallase and Tuuli Mizer were members of the Management Board of AS Operail Leasing in the financial year until 23.05.2022 and on 23.05.2022 Merle Kurvits was appointed as a member of the Management Board instead of Valentin Pallase.

Since 09.07.2021, the company has 25,500 shares with a nominal value of 1 euro each, all of which are held by Operail Holding OÜ.

Operail Repairs OÜ

Operail Repairs OÜ was established on 21.05.2021. Its purpose upon arranging the Group structure was to consolidate rolling stock repair and development work into a separate company. Both members of the Management Board of Operail were members of the Management Board until Paul Priit Lukka left the Group on 28.05.2022 and thereafter Raul Toomsalu was the only member of the Management Board. The company has no Supervisory Board.

As of 02.08.2021, the company has one share with a nominal value of 3,000 euros which is held by Operail Holding OÜ.

Operail Leasing Finland Oy

In the financial year, the Finnish subsidiary Operail Leasing Finland Oy, which was established on 10.05.2017 and engaged in leasing open wagons for wood chips to Finnish clients, continued its economic activities. The member of the Management Board is Tuuli Mizer. A change occurred within the financial year: as the member of the Management Board of the Group Paul Priit Lukka left the Group on 28.05.2022, Raul Toomsalu was appointed as a new alternate member. In accordance with the legislation of the Republic of Finland, a Management Board consisting of less than three members must have appointed an alternate member.

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

Operail Finland Oy

The members of the Management Board of the Finnish subsidiary Operail Finland Oy, which was established in 2019, were Paul Priit Lukka (Chairman), Raul Toomsalu and Ilkka Aimo Jalmari Seppänen. The latter is also the CEO of the company. Paul Priit Lukka left the Group on 28.05.2022 and Raul Toomsalu was elected as the Chairman of the Management Board on 01.06.2022. The subsidiary provides freight transport services in Finland (from the Finnish-Russian border to Finnish ports) pursuant to an approved business plan. The provision of the services started in the second half of 2020.

The company has 10,000 shares with a nominal value of 0.25 euros each, all of which are held by Operail Holding OÜ. Based on the guidelines of the sole shareholder, on 29.12.2022 the Supervisory Board of AS Operail approved the transfer of the holding of Operail Finland Oy in its entirety to North Rail Holding Oy, a company of the Republic of Finland.

Remuneration and compensation

Remuneration and benefits of the members of the Management Board of the company are set out in the agreements entered into with the members of the Management Board, which have been discussed and

approved by the Supervisory Board. Severance pay is paid to a member of the Management Board only if he or she is removed by the Supervisory Board before the end of his or her term of office, and the severance pay may not exceed the member's three months' remuneration. A member of the Management Board is not paid severance pay if he or she is removed from the Management Board for a good reason, e.g. if he or she has violated the law, the Articles of Association or the agreement of the member of the Management Board or failed to perform his or her duties.

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

On 06.07.2022, the Supervisory Board of AS Operail approved the principles of remuneration and performance pay of members of the Management Board, but no performance pay was paid to the members of the Management Board during the financial year.

Prevention of conflicts of interests

In 2022, transactions were concluded between persons related to a member of the Management Board on the one side and the company on the other side, in addition to intra-group transactions (Note 17).

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

The internal control did not establish any events where the members of the Management Board or employees of the company had demanded or accepted from third parties money or any other benefits for personal purposes in connection with their work or granted to third parties any unlawful or unreasonable advantages on behalf of the company. To ensure this, the Management Board of the company has approved the Procedure for the prevention of conflicts of interests by decision No. 1-2.3/14 of 16.03.2020.

Publication of information

AS Operail publishes information on the shareholder and the composition of the Supervisory Board and the Management Board on its website. In addition, the company's Articles of Association, annual financial statements, interim reports (3, 6 and 9 months) and information about the auditor are published on the website. In addition, the company publishes information provided for in the State Assets Act.

Financial reporting

AS Operail prepares financial statements in accordance with the International Financial Reporting Standards in force in the European Union.

Consolidated Annual Financial Statements

Consolidated Statement of Financial Position

<i>in thousands of euros</i>	Note	31.12.2022	31.12.2021
ASSETS			
Non-current assets			
Prepayments for non-current assets	3	0	6
Property, plant, and equipment	3	19,668	69,348
Right-of-use assets	3, 15	28,617	78,229
Intangible assets	3	314	452
Total non-current assets		48,599	148,035
Assets held for sale	20	74,851	0
Inventories	4	4,037	5,471
Other receivables	2, 5	508	2,081
Trade receivables	2, 5	3,678	4,677
Cash and cash equivalents	2	21,482	16,056
Total current assets		104,555	28,285
TOTAL ASSETS		153,155	176,320
EQUITY AND LIABILITIES			
Equity			
Share capital	6	24,476	24,476
Share premium		17,256	17,256
Legal reserve		391	389
Other reserves		1	1
Retained earnings	14	10,379	26,124
Total equity		52,503	68,246
Non-current liabilities			
Trade payables and other non-current liabilities		177	0
Borrowings	2, 7	0	27,500
Lease liabilities	2, 7, 15	30,110	50,481
Provisions	8	448	549
Total non-current liabilities		30,735	78,529
Current liabilities			
Trade payables and other current liabilities	9	5,172	14,052
Contract liabilities	9	7,838	249
Borrowings	2, 7	0	2,037
Lease liabilities	2, 7, 15	2,354	13,176
Provisions	8	527	31
Liabilities related to assets held for sale	20	54,026	0
Total current liabilities		69,917	29,545
TOTAL LIABILITIES		100,652	108,074
TOTAL EQUITY AND LIABILITIES		153,155	176,320

The Notes presented on pages 26–68 form inseparable parts of the Annual Financial Statements.

Consolidated Statement of Comprehensive Income

<i>in thousands of euros</i>	Note	2022	2021
CONTINUING OPERATIONS			
Revenue from client contracts	10	38,479	53,402
Other operating revenues	10	1,440	857
Total operating revenues		39,919	54,259
Goods, raw materials and services	11	22,890	28,903
Other operating expenses	11	3,246	2,606
Labour costs	12	15,042	14,964
Depreciation and impairment of non-current assets	3	7,699	6,966
Other operating charges		101	85
Total operating charges		48,978	53,524
OPERATING PROFIT (-LOSS)		-9,060	735
Financial income and expenses	13	-665	-642
PROFIT (-LOSS) BEFORE INCOME TAX		-9,725	93
Income tax	14	-86	-438
LOSS FOR FINANCIAL YEAR FROM CONTINUING OPERATIONS		-9,811	-345
Loss for financial year from discontinued operations	20	-5,933	-4,663
TOTAL COMPREHENSIVE LOSS FOR FINANCIAL YEAR		-15,743	-5,008

The Notes presented on pages 26–68 form inseparable parts of the Annual Financial Statements.

Consolidated Statement of Changes in Equity

<i>in thousands of euros</i>	Not e	Share capital	Share premium	Legal reserve	Other reserve s	Retained earnings	Total
Balance on 31.12.2020	6	24,476	17,256	256	1	33,470	75,459
Comprehensive loss for reporting period		0	0	0	0	-5,008	-5,008
Legal reserve		0	0	133	0	-133	0
Dividends declared		0	0	0	0	-2,205	-2,205
Balance on 31.12.2021	6	24,476	17,256	389	1	26,124	68,246
Comprehensive loss for reporting period		0	0	0	0	-15,743	-15,743
Legal reserve		0	0	2	0	-2	0
Balance on 31.12.2022	6	24,476	17,256	391	1	10,379	52,503

The Notes presented on pages 26–68 form inseparable parts of the Annual Financial Statements.

Consolidated Statement of Cash Flows

<i>in thousands of euros</i>	Note	2022	2021
Cash flow from operating activities			
Net profit for financial year		-15,743	-5,008
Adjustments			
Depreciation and impairment of non-current assets	3	23,833	19,667
Financial income/expenses		1,545	2,067
Income tax	14	86	438
Profit from sale of non-current assets	3	-1,075	-489
Adjustments of reserve of benefits for incapacity for work		-94	-102
Other adjustments		182	0
Total adjustments		24,476	21,581
Change in receivables and prepayments related to operating activities	5	1,474	-775
Change in inventories	4	495	1,707
Change in payables and prepayments related to operating activities	9, 20	893	-763
Interest received		1	17
Total cash flow from operating activities		11,595	16,759
Cash flow from investing activities			
Paid upon acquisition of property, plant and equipment and intangible assets	3	-2,198	-13,687
Proceeds from sale of property, plant and equipment and intangible assets		6,674	671
Total cash flow from investing activities		4,476	-13,016
Cash flow from financing activities			
Borrowings		0	10,627
Proceeds from sale and leaseback transactions		0	3,144
Loan repayments	7	-2,037	-1,019
Lease principal repayments	7	-6,933	-4,721
Dividends paid	6	0	-2,205
Income tax paid		-86	-369
Interest paid		-1,583	-2,093
Total cash flow from financing activities		-10,640	3,364
Total cash flow		5,431	7,107
Cash and cash equivalents at the beginning of the period	2	16,056	8,940
Change in cash and cash equivalents		5,431	7,107
Effect of changes in exchange rates		-5	9
Cash and cash equivalents at the end of the period	2	21,482	16,056

The cash flow presented in the table includes both continuing and discontinued operations. Cash flow from discontinued operations is set out in Note 20.

The Notes presented on pages 26–68 form inseparable parts of the Annual Financial Statements.

Notes to Consolidated Annual Financial Statements

General information

AS Operail is a company established on 14.01.2009, with its registered address at Metalli 3, Tallinn. The principal activities of the Group are the organisation of rail transport and the rental, repair and maintenance of railway vehicles. As of June 2017, the Group includes an Estonian subsidiary of AS Operail, AS Operail Leasing, and Finnish subsidiaries Operail Leasing Finland Oy and since July 2019 Operail Finland Oy. On 20.05.2021, the Group increased by two new private limited companies: Operail Holding OÜ and Operail Repairs OÜ.

On 01.07.2021, a change took place in the Group structure, in the course of which the Group was made to consist of two levels.

Operail Holding OÜ includes the Estonian subsidiaries AS Operail Leasing and Operail Repairs OÜ and Finnish subsidiaries Operail Leasing Finland Oy and Operail Finland Oy. AS Operail is the parent company of Operail Holding OÜ.

The annual financial statements for the financial year that ended on 31.12.2022 were signed by the Management Board on 29.05.2023. According to the Commercial Code, the annual financial statements prepared by the Management Board and approved by the Supervisory Board will have to be approved by the General Meeting of shareholders.

Note 1. Accounting policies and procedures

Note 1.1. Accounting policies and measurement bases

The consolidated annual financial statements of the Group for 2022 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter referred to as the 'IFRS EU'). The consolidated annual financial statements have been prepared using the acquisition cost principle, except for certain financial liabilities, including derivatives, which are stated at fair value. The consolidated annual financial statements are presented in euros (rounded to the nearest thousand), which is the functional and presentation currency of the Group.

Adoption of new or revised standards and interpretations

The new or revised standards or interpretations that are effective for the first time in the financial year beginning on or after 1 January 2022 are not expected to have a material impact on the Group.

Standards issued but not yet effective and not early adopted

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2022 and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies

Effective for annual periods beginning on or after 1 January 2023. Earlier application is also permitted. IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements.

Note 1 (continued)

The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The Group does not expect the amendments to have a material impact on its financial statements.

Amendments to IAS 8: Definition of Accounting Estimates

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors are effective for annual periods beginning on or after 1 January 2023. The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

The Group does not expect the amendments to have a material impact on its financial statements.

Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The Group does not expect the amendments to have a material impact on its financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current – Deferral of Effective Date

Effective for annual periods beginning on or after 1 January 2023. These amendments are not yet endorsed by the EU.

Note 1 (continued)

These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

The Group does not expect the amendments to have a material impact on its financial statements.

Other new or revised standards or interpretations not yet effective are not expected to have a material impact on the Group.

Note 1.2. Significant accounting estimates

The preparation of consolidated annual financial statements in conformity with the International Financial Reporting Standards requires the management to make assumptions, estimates and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities and revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are reasonable under the circumstances, the results of which form the basis of making judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The actual results may differ from the estimates.

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

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

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

The management has assessed the useful lives of property, plant and equipment based on historical experience and considering the intensity of asset use and future outlook. The service lives of the components of the main non-current assets of the Group (locomotives, locomotive engines, wagons and wheelsets) range from 3 to 40 years. If the useful life of non-current assets of the Group were 10% longer, the depreciation would be 418 thousand euros smaller and, if the useful life were 10% shorter, the depreciation would be 510 thousand euros more.

B) Determining the recoverable amounts of non-current assets

In the event of indications of impairment, the Group performs tests of the recoverable amount of non-current assets and, if necessary, writes down non-current assets. If the carrying amount of non-current assets is larger than

the recoverable amount or net realisable value of the assets, the carrying amount will be written down. If the circumstances change, the Group may incur additional losses due to impairment of assets or it may be necessary to reverse the previously recognised write-downs either in part or in full.

The carrying amount of non-current assets as at 31.12.2022 is 48,599 thousand euros (31.12.2021: 148,029 thousand euros). In 2022, property, plant and equipment were written down by 13,256 thousand euros (2021: 8,968 thousand euros). More detailed information on write-downs of non-current assets is disclosed in Note 3.

C) Classification as assets held for sale and fair value measurement

The requirements for the classification of assets held for sale and for the disclosure of discontinued operations are set out in clause 1.5.

The management has divided the portfolio of wagons into two: the wagons located in Ukraine and other wagons. According to the management, all the conditions of classification to assets held for sale (Note 1.5) were met at the end of the reporting period, from November to December 2022. In November 2022, the conditions of the Ukrainian wagon portfolio were met and, in December 2022, the rest of the conditions of both the wagon lease portfolio of Operail Leasing and Operail Finland were met.

Meeting the conditions was affected by the following factors:

- Most of the assets were encumbered with contracts, which limited sales opportunities.
- The military action, which started in Ukraine, together with the deteriorated economic environment made the conditions of sale of assets unfavourable, due to which it was difficult to measure the fair value of assets.
- The approval of the plan to sell depended on several factors, the establishment of which was time-consuming.

The fair value was determined on the basis of offers collected during the sales process. The fair value of non-current assets held for sale as at 31.12.2022 is 72 million euros (the carrying amount before write-down is 82 million euros). A 1% decrease in fair value would mean an additional write-down in the amount of 0.7 million euros.

Note 1.3. Recognition of foreign currency transactions

The functional and presentation currency of the company is the euro, but other currencies are also used in settlements – mainly the US dollar and the Swiss franc.

Transactions denominated in foreign currencies are recognised using the official exchange rates quoted by the European Central Bank at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on 31.12.2022 have been restated in euros using the official exchange rates quoted by the European Central Bank as at the balance sheet date. Gains and losses on foreign currency transactions are recognised as the revenue and expenses for the period in question in the statement of comprehensive income.

Note 1.4. Property, plant and equipment and right-of-use assets

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

Note 1 (continued)

Property, plant and equipment are stated at the acquisition cost, which consists of the purchase price, non-refundable taxes and other expenses directly attributable to the commissioning of the assets. Depreciation and impairment amounts have been deducted from the acquisition cost. For more detailed information on recognition of right-of-use assets, see 1.12.

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

- Land, buildings and structures – land, buildings, structures, railways.
- Machinery and equipment – rolling stock, cars, computing equipment, other equipment.
- Other fittings, fixtures and equipment – tools, office equipment, furniture.
- Construction in progress.

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

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

Useful lives of non-current assets

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

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

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

Note 1 (continued)

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

Note 1.5. Assets held for sale and discontinued operations

A non-current asset must be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets disposed of in a single transaction and related liabilities form a disposal group. A non-current asset is not depreciated if it is classified as held for sale or is part of a disposal group classified as held for sale. In accordance with IFRS 5, all of the following conditions must be met to be classified as held for sale:

- The asset is available for immediate sale.
- The management must be committed to a plan to sell.
- An active programme to complete the plan has been initiated.
- The asset is offered at a price reasonable in relation to the fair value of the asset marketed.
- The sale must be completed within one year from the classification thereof.
- Changes to a plan or interruption of a plan are/is unlikely.

Immediately before the initial classification of the asset or disposal group as held for sale, the carrying amounts of the asset or disposal group are measured in accordance with applicable IFRSs. Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. A gain is recognised for each subsequent increase in the fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss.

A discontinued operation is a component of an entity that has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations and is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

In the income statement, the profit or loss of discontinued operations is disclosed separately as a single amount. In addition, the income statement or notes to the income statement disclose(s) the sales revenues, expenses, pre-tax profit, income tax expense, gain or loss of discontinued operations and gain or loss based on fair value less costs to sell. The net cash flows of discontinued operations are presented in the cash flow statement or in the notes by operating, investing and financing activities. Information on revenues, expenses and net cash flows is also provided for the reference period. Intragroup transactions between discontinued and continuing operations are eliminated according to whether the transactions between continuing and discontinued operations also continue after the sale transaction.

Note 1.6. Inventories

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

Note 1.7. Cash and cash equivalents

Cash in hand and balances of current accounts (except overdraft) are recognised as cash and cash equivalents on the balance sheet under 'Cash' and in the statement of cash flows. Overdraft is recognised on the balance sheet under short-term borrowings.

Note 1.8. Financial instruments**Financial assets**

The Group classifies financial assets into the following measurement categories:

- Those to be measured at fair value with changes through the statement of comprehensive income;
- Those to be measured at amortised acquisition cost.

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

Recognition and derecognition

Purchases and sales of financial assets under normal market conditions are recognised on the trade date, which is the date when the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to the cash flows from the financial asset expire or are transferred and the Group substantially transfers all the risks and rewards of ownership.

Measurement

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

Debt instruments

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

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

Interest income, foreign exchange gains and losses and impairment are recognised in the statement of comprehensive income. Gains or losses arising on derecognition are recognised in the statement of comprehensive income.

Financial liabilities

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

The amortised acquisition cost of current financial liabilities is generally equal to their nominal value and therefore current financial liabilities are recognised on the balance sheet in the amounts payable.

The amortised acquisition cost of non-current financial liabilities is calculated using the internal interest rate method.

Note 1 (continued)

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

Note 1.9. Impairment of assets**Financial assets**

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

Expected credit losses are measured based on:

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

The Group measures impairment as follows:

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

Impairment of non-financial assets

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

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

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

Note 1 (continued)

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

Note 1.10. Revenue recognition

Sales revenue is the income generated in the ordinary course of business of the company. Sales revenue is recognised at the transaction price. The transaction price is the total consideration which the company is entitled to receive in exchange for delivery of promised goods or services to the client, excluding any amounts collected on behalf of third parties. The Group recognises sales revenue when it transfers control of a good or service to a client.

Lease revenue from rolling stock and other assets is recognised on a straight-line basis over the lease term.

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

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

Note 1.11. Short-term employee benefits

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

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

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

Note 1.12. Income tax

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

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

Note 1 (continued)

The statement of financial position does not reflect the potential income tax liability in respect of the company's unrestricted equity, which would result from the disbursement of the unrestricted equity as dividends. The maximum possible amount of income tax liability associated with the payment of all unrestricted equity as dividends is set out in Note 14.

Income tax payable on dividends is recognised as an expense in the statement of comprehensive income when the dividends are declared. Income tax on fringe benefits, gifts, donations and entertainment expenses and non-business expenses is recognised in operating expenses on an accrual basis.

Deferred income tax

Due to the nature of the taxation system, neither deferred income tax assets nor liabilities arise for the companies registered in Estonia, other than the potential income tax liability on their investments in Estonian subsidiaries.

No deferred income tax liability arises if the Group is able to control the timing of the reversal of taxable temporary differences and their reversal is not likely to happen in the foreseeable future. An example of the reversal of taxable temporary differences is payment of dividends. As the Group controls the dividend policy of its subsidiary, it is also able to control the timing of the reversal of temporary differences related to this investment. When the parent company has made a decision not to distribute the subsidiary's profit in the foreseeable future, it shall not recognise the deferred income tax liability. If the parent company expects to pay out dividends in the foreseeable future, the deferred income tax liability shall be measured to the extent of the planned dividend payment under the assumption that as of the reporting date there will be sufficient funds and equity available for the payment of dividends from which to distribute profits in the foreseeable future. For measuring the deferred income tax liability, the Group uses the tax rates that are expected to be applied on the basis of the tax rates effective on the reporting date to taxable temporary differences in the period in which they are expected to reverse.

Note 1.13. Lease accounting*Group as lessor*

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

Group as lessee

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

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

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

Note 1 (continued)

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

Initial measurement

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

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

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

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

The lessee measures the lease liability at the commencement of the lease term at the present value of outstanding lease payments at that date. The lease payments are discounted using the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the lessee uses the lessee's alternative borrowing rate, which is the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

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

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

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

- (a) Fixed payments, less any lease incentives receivable.

Note 1 (continued)

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

(c) Amounts expected to be payable by the lessee under residual value guarantees.

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

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

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

Subsequent measurement

After the lease term commencement date, the lessee measures the right-of-use asset using the acquisition cost model. To apply the acquisition cost model, the lessee measures the right-of-use asset at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability.

If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee will depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee will depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term.

After the commencement date, the lessee measures the lease liability by:

(a) Increasing the carrying amount to reflect interest on the lease liability.

(b) Reducing the carrying amount to reflect the lease payments made.

(c) Remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

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

In the event of a change in lease payments, the lease liability may need to be remeasured. The lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the lessee recognises any remaining amount of the remeasurement in profit or loss.

Note 1 (continued)

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

(a) There is a change in the lease term. The lessee determines the revised lease payments on the basis of the revised lease term.

(b) There is a change in the assessment of an option to purchase the underlying asset. The lessee determines the revised lease payments to reflect the change in amounts payable under the purchase option.

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

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

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

To that end, the lessee uses an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates.

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

Note 1.14. Provisions and contingent liabilities

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

Provisions are recorded on the basis of the Management Board's assessment and experience and, if necessary, also the assessments of independent experts. Non-current provisions are presented on the balance sheet in discounted amounts.

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

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

Note 1 (continued)

The provision for relevant benefits is calculated based on the number of entitled persons, the period over which the benefits are expected to be paid and the amounts of the benefits (Note 8).

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

Other possible or existing liabilities whose realisation is less likely than non-realisation or for which the amount of the related expenses cannot be estimated with sufficient reliability are disclosed in the notes to the financial statements as contingent liabilities (Note 16) and are not recognised in the annual financial statements of the Group. The notes do not disclose contingent liabilities that are highly unlikely to materialise.

Note 1.15. Events after the reporting period

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

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

Note 1.16. Derivatives

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

Note 1.17. Basis of preparation of the statement of cash flows

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

Note 1.18. Consolidation principles, recognition of subsidiaries

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

Note 1.19. Sale and leaseback transactions

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

Note 1 (continued)

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

Note 1.20. Unconsolidated financial statements of the parent company presented in the notes to the consolidated annual financial statements

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

Note 1.21. Contract liabilities

In accordance with IFRS 15, consideration received from a client is recognised as a contract liability if the entity has not fulfilled all the promises made to the client in the sales contract. A contract asset is recognised if the volume of the services provided to the client exceeds the payments received. A contract asset and a contract liability arising from the same contract are recognised as a net amount in the financial statements.

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

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

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

2.2 Market risks*Interest rate risk*

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

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

Note 2 (continued)

<i>in thousands of euros</i>	31.12.2022	31.12.2021
Variable-rate financial liabilities		
Continuing operations	15,684	66,986
Discontinued operations	45,622	0
Total	61,306	66,986

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

<i>in thousands of euros</i>	31.12.2022	31.12.2021
Increase by 100 basis points	-533	-616
Decrease by 100 basis points	533	616

The table shows the interest rate risk on loans as at 31.12.2022. Taking into account early loan closures after the balance sheet date, the impact of an increase by 100 basis points is -219 thousand euros and the impact of a decrease by 100 basis point is 219 thousand euros.

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

Currency risk

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

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

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

<i>in thousands of euros</i>	31.12.2022		31.12.2021		
	CHF	USD	CHF	USD	RUB
Receivables	0	0	22	0	0
Payables	-92	-3	-116	63	1
Net positions	-92	-3	-94	63	1

Note 2.3. Credit risk

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

Note 2 (continued)

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

<i>in thousands of euros</i>	Note	31.12.2022	31.12.2021
Cash and cash equivalents**		21,482	16,056
Receivables*	5	3,856	5,169
Total		25,338	21,225

* Does not include prepayments of taxes or deferred expenses.

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

As at 31.12.2022, the Group's credit risk amounted to 25,338 thousand euros (31.12.2021: 21,225 thousand euros).

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

<i>in thousands of euros</i>	31.12.2022	31.12.2021
not yet due	3,302	4,445
overdue 1-30 days	338	107
overdue 31-180 days	187	284
overdue 181-365 days	30	254
overdue over 1 year	0	79
Total (Note 5)	3,856	5,169

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

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

As at 31.12.2022, the outstanding balance of doubtful receivables amounts to 493 thousand euros (2021: 0).

Although cash and cash equivalents are also included in the expected credit loss model of IFRS 9, the identified impairment loss was immaterial as at 31 December 2022 and 31 December 2021. The management estimates that the cash and cash equivalents of the Group are not exposed to significant credit risks.

The Group's current financial assets have been placed in current accounts of banks operating in Estonia and in Finland.

Note 2 (continued)

Credit quality of current financial assets by ratings*

<i>in thousands of euros</i>	31.12.2022	31.12.2021
A3	6,797	0
Aa3	5,721	8,736
Baa1	8,963	7,320
Non-rated	3,856	5,169
Total	25 337	21,225

* Moody's long-term financial stability rating

Note 2.4. Liquidity risk

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

The following liquidity analysis presents an analysis of undiscounted financial liabilities by maturity, including estimated future interest payments (interest expenses are estimated based on interest rates effective on 31.12.2022):

<i>in thousands of euros</i>		31.12.2022				
	Note	Carrying amount	Contractual cash flows	Up to 1 year	2-5 years	Over 5 years
Lease liabilities	7	32,464	35,229	3,304	29,312	2,613
Trade payables	9	2,619	2,619	2,619	0	0
Other payables*	9	8,627	8,627	8,627	0	0
Total		43,710	46,475	14,550	29,312	2,613

Note 2 (continued)

<i>in thousands of euros</i>		31.12.2021				
	Note	Carrying amount	Contractual cash flows	Up to 1 year	2-5 years	Over 5 years
Borrowings	7	29,537	38,064	5,242	13,390	19,432
Lease liabilities	7	63,657	66,798	14,093	48,858	3,847
Trade payables	9	10,737	10,737	10,737	0	0
Other payables*	9	1,367	1,367	1,367	0	0
Total		105,298	116,966	31,439	62,248	23,279

* does not include tax arrears or payables to employees

Note 2.5. Capital management

The Group is a company in which all shares are owned by the state. Decisions on the distribution of dividends and increase or decrease of the share capital are made by the Republic of Estonia (in the person of the Minister of Economic Affairs and Communications).

The Group's principle in capital management is to ensure the Group's sustainable development, credibility in the eyes of creditors and the market, and an optimal capital structure. The Ministry of Finance considers the recommended equity ratio to be 55–60%. After disposals of assets held for sale, the Group's equity ratio will increase to the recommended range.

Equity ratio of the Group:

<i>in thousands of euros</i>	Note	31.12.2022	31.12.2021
Cash and cash equivalents (minus)	2.5	21,482	16,056
Borrowings	7	32,464	93,194
Cash and cash equivalents classified in assets held for sale	20	508	0
Borrowings related to assets held for sale	20	51,843	0
Net debt		62,317	77,138
Equity		52,503	68,246
Operating profit before depreciation (EBITDA)		9,720	17,165
Total assets		153,155	176,320
<hr/>			
Net debt/operating profit before depreciation		6.4	4.5
Equity/Assets		34%	39%

* Total continuing and discontinued operations

** Borrowings – cash and cash equivalents

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

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

Note 2.6. Operational risk

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

Note 2.7. Fair value

The Group estimates that the fair values of financial assets and liabilities carried at amortised acquisition cost do not differ significantly from the carrying amounts recognised in the annual financial statements of the Group as at 31.12.2022 and 31.12.2021, the financing terms have been entered into in the recent past.

Note 2 (continued)

As the majority of the Group's long-term borrowings have a floating interest rate that changes in line with changes in money market interest rates and the management estimates that the loan margin has not changed significantly, their fair value does not differ significantly from the carrying amount.

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

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

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

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

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

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

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

The tables in Note 3 show the non-current assets of the Group as a whole, including changes between the types of non-current assets, including between continuing and discontinued operations.

<i>in thousands of euros</i>	Land, building s and structur es	Machine ry and equipme nt	Other fittings, fixtures and equipme nt	Constru ction in progress	Intangibl e assets	Total
31.12.2020						
Acquisition cost	9,005	105,388	746	12,281	478	127,898
Accumulated depreciation	-3,765	-64,697	-505	0	-84	-69,051
Carrying amount	5,240	40,691	241	12,281	394	58,847
Changes during 2021						
Acquisition	0	0	0	18,761	138	18,899
Reclassification from construction in progress (at acquisition cost)	207	26,989	16	-27,212	0	0
Reclassification from prepayments (at acquisition cost)	4	476	7	10,522	0	11,009
Reclassification from right-of-use assets (at acquisition cost)	0	101	0	0	0	101
Reclassification to right-of-use assets (at acquisition cost)	0	0	0	-3,088	0	-3,088
Sale and write-off (at acquisition cost)	-300	-3,022	-17	0	0	-3,339
Reclassification to inventories (at acquisition cost)	0	-19,119	0	0	0	-19,119
Depreciation						
Depreciation	-273	-4,845	-90	0	-80	-5,288
Impairment	-2,493	-6,475	0	0	0	-8,968
Depreciation of reclassified right-of-use assets	0	-33	0	0	0	-33
Depreciation of non-current assets sold and written off	294	2,849	13	0	0	3,157
Depreciation of reclassified inventories	0	17,622	0	0	0	17,622
Changes in period	-2,561	14,544	-71	-1,018	58	10,953
31.12.2021						
Acquisition cost	8,916	110,814	752	11,263	616	132,362
Accumulated depreciation	-6,236	-55,579	-582	0	-164	-62,561
Carrying amount	2,679	55,236	170	11,263	452	69,800

Note 3 (continued)

<i>in thousands of euros</i>	Land, building s and structur es	Machine ry and equipme nt	Other fittings, fixtures and equipme nt	Constru ction in progress	Intangibl e assets	Total
31.12.2021						
Acquisition cost	8,916	110,814	752	11,263	616	132,362
Accumulated depreciation	-6,236	-55,579	-582	0	-164	-62,561
Carrying amount	2,679	55,236	170	11,263	452	69,800
Changes during 2022						
Acquisition	0	2,395	0	4,411	45	6,851
Reclassification from construction in progress at acquisition cost	15	6,825	0	-6,840	0	0
Reclassification from prepayments at acquisition cost	62	206	2	0	0	270
Reclassification from right-of-use assets at acquisition cost	0	5,702	0	-1,842	0	3,859
Sale and write-off at acquisition cost	-76	-3,684	-5	0	-9	-3,773
Reclassification to work in progress (inventories)	0	0	0	-3,204	0	-3,204
Reclassification to non-current assets held for sale	-78	-66,855	-25	0	-86	-67,044
Depreciation						
Depreciation	-150	-5,609	-87	0	-97	-5,943
Impairment of assets held for sale		-8,816	0	0	0	-8,816
Write-down of other assets	-1,096	-38				-1,133
Depreciation of reclassified right-of-use assets	0	-2,799	0	0	0	-2,799
Depreciation of non-current assets sold and written off	65	3,492	4	0	9	3,571
Reclassification to depreciation of non-current assets held for sale	56	28,270	16	0	0	28,343
Changes in period	-1,200	-40,909	-95	-7,475	-138	-49,818
31.12.2022						
Acquisition cost	8,840	55,403	724	3,788	565	69,321
Accumulated depreciation	-7,361	-41,077	-649	0	-252	-49,338
Carrying amount	1,479	14,326	75	3,788	314	19,982

Improvements to non-current assets were capitalised in 2022 in the amount of 3,633 thousand euros (2021: 7,162 thousand euros), of which 18 thousand euros (2021: 15 thousand euros) were added to the group Buildings, 3,586 thousand euros (2021: 7,105 thousand euros) to the group Machinery and equipment and 28 thousand euros (2021: 41 thousand euros) to the group Intangible assets.

Note 3 (continued)

As at 31.12.2022, the Group had fully amortised non-current assets in use at acquisition cost of 23,599 thousand euros (2021: 27,292 thousand euros). As at 31.12.2022, as well as 31.12.2021, no assets of the Group were pledged.

In 2022, a prepayment was made for non-current assets in the amount of 0 euros (2021: 0 euros) and was reclassified from non-current assets in progress in the amount of 6,840 thousand euros (in 2021, 10,522 thousand euros were reclassified from prepayments to non-current assets in progress). The balance of the prepayment for non-current assets as at 31.12.2022 amounts to 0 euros (31.12.2021: 6 thousand euros).

In connection with indications of impairment of assets of continuing operations (lower than expected freight volumes, increase in interest rates), the management prepared tests of the recoverable amount of assets. In the case of assets held for sale, IFRS13 regulates the fair value measurement before reclassification. As a result of the measurement, non-current assets were written down in the amount of 13,256 thousand euros (31.12.2021: 8,968 thousand euros). This write-down includes property, plant and equipment as well as right-of-use assets. In 2022, non-current assets were written down in Operail Finland Oy in the amount of 8,714 thousand euros, in AS Operail in the amount of 1,599 thousand euros, in AS Operail Leasing in the amount of 1,436 thousand euros, in Operail Repairs OÜ in the amount of 1,096 thousand euros and in Operail Leasing Finland Oy in the amount of 411 thousand euros, more detailed information is set out below.

Write-downs of non-current assets in continuing operations*AS Operail*

The recoverable amount has been found by the Management Board of the Group through comparing the value in use and the fair value. It has been identified that, due to a decline in volumes, the value in use has fallen below the realisable value, taking into account the fair value of similar assets. The Management Board of the Group has obtained a price indication for a comparable locomotive and has found that the carrying amount of five locomotives exceeds the forecast market value. As the locomotives being valued are older, their market value has been adjusted accordingly. The total write-down of the right-of-use assets is 1.5 million euros. The analysis of the value of non-current assets also identified the need to write down equipment by 38 thousand euros (non-current assets).

Operail Repairs OÜ

The recoverable amount has been found by the Management Board of the Group, considering the fair value of assets. The carrying amount of two objects of immovable property, which constitute non-current assets, has been written down by 1.1 million euros as at 31.12.2022. The estimate of the recoverable amount of the assets was based on an expert assessment and the forecast cost of sales of the assets.

Operail Leasing Finland Oy

The estimate of the recoverable amount of wagons is based on the realisable value of the assets. At the time these statements are prepared, an agreement has been entered into that the wagons will be returned to the lender, paying an additional contractual amount, and the lender will thereby deem the loan repaid. Based on this agreement, the Management Board of the Group considers the fair value of the wagons to be the loan balance plus the contractual amount. The write-down volume of the right-of-use assets is 0.4 million euros.

Note 3 (continued)**Write-downs of non-current assets in discontinued operations**

In connection with the implementation of IFRS 5, the recoverable amounts of non-current assets of the entities in discontinued operations have been reviewed.

AS Operail Leasing

The wagons belonging to AS Operail Leasing have been recognised as non-current assets held for sale. As the sales process began already in 2022 and, by the time these statements are prepared, most of the wagons have already been sold, the estimate of the Management Board of the Group is based on the price offers received in respect of all wagons. The recoverable amount has been measured using the net price of the assets (the selling price less the fee related to the transaction). The write-down volume of the right-of-use assets is 1.3 million euros.

Operail Finland Oy

Although the contract of sale of Operail Finland Oy as a company was entered into in December 2022, the transaction was completed and control over the company was transferred in February 2023, due to which as at 31.12.2022 the assets of Operail Finland Oy have been recognised in the consolidated annual financial statements of Operail AS as assets held for sale.

The Management Board of the Group has no reliable basis for measuring the value in use of the assets, as it does not know how the new owner plans to use the locomotives. Thus, when assessing the need for a write-down of assets, the Management Board of the Group has found the realisable value of the assets. The value of the assets has been measured as the net selling price of the shares less the recoverable amount of the assets in the balance sheet of Operail Finland Oy. The carrying amount of locomotives has been reduced by 8.7 million euros, which constitutes a write-down of non-current assets. The methods used for testing the recoverable amount are described in Note 1.

Note 3 (continued)

Right-of-use assets

<i>in thousands of euros</i>	Land, buildings and structures	Machinery and equipment	Total
31.12.2020			
Acquisition cost	745	97,546	98,291
Accumulated depreciation	-332	-17,404	-17,736
Carrying amount	413	80,142	80,555
Changes during 2021			
Reclassifications to property, plant and equipment at acquisition cost	0	-101	-101
Write-offs at acquisition cost	-2	-222	-224
Addition of right-of-use assets at acquisition cost	0	224	224
Reclassification from non-current assets in progress at acquisition cost	0	3,088	3,088
Calculated depreciation	-178	-5,233	-5,412
Reclassifications to property, plant and equipment at depreciation	0	33	33
Write-offs at depreciation	0	66	66
31.12.2021			
Acquisition cost	743	100,535	101,278
Accumulated depreciation	-511	-22,538	-23,049
Carrying amount	233	77,996	78,229
Changes during 2022			
Acquisition	0	129	129
Reclassifications to property, plant and equipment at acquisition cost	0	-5,702	-5,702
Sale and write-off at acquisition cost	0	-128	-128
Reclassification to non-current assets held for sale	0	-55,365	-55,365
Depreciation			
Depreciation	-174	-4,459	-4,633

Note 3 (continued)

Impairment of assets held for sale	0	-1,335	-1,335
Write-down of other assets	0	-1,972	-1,972
Reclassifications to property, plant and equipment at depreciation	0	2,799	2,799
Depreciation of non-current assets sold and written off	0	46	46
Reclassification to depreciation of non-current assets held for sale	0	16,551	16,551
Changes in period	-174	-49,438	-49,611
31.12.2022			
Acquisition cost	743	39,468	40,211
Accumulated depreciation	-684	-10,909	-11,594
Carrying amount	59	28,558	28,617

Note 4. Inventories

<i>in thousands of euros</i>	31.12.2022	31.12.2021
Spare parts for rolling stock	2,786	4,178
Fuel and lubricants	732	695
Other inventories	519	598
Total inventories	4,037	5,471

In the financial year, inventories were written off in the amount of 1 thousand euros (2021: 54 thousand euros) and written down by 0 euros (2021: 0). No write-downs of previous periods have been reversed in the reporting or reference period.

Note 5. Receivables and prepayments

<i>in thousands of euros</i>	Note	31.12.2022	31.12.2021
Accounts receivable	2	4,170	4,677
Doubtful accounts	2	-493	0
Total accounts receivable	2	3,678	4,677
Other short-term receivables	2	178	492
Prepaid taxes		31	734
Prepaid expenses		299	855
Total other receivables		508	2,081
Total receivables and prepayments		4,186	6,758

Note 6. Equity

Share capital

<i>in thousands of euros</i>	31.12.2022	31.12.2021
Share capital	24,476	24,476
Number of shares (pcs.)	24,476,466	24,476,466
Nominal value of shares (euros)	1	1
Dividends (euros)	0	2,205,000
Dividend per share (EUR/share)	0.00	0.09

Each share entitles its holder to participate in the General Meeting of shareholders of the Group and gives one vote in making decisions. All shares are ordinary shares for which monetary contributions have been made. All shares carry equal rights in the distribution of profits and in liquidation proceeds in the event of possible liquidation of the Group.

Note 7. Borrowings and lease liabilities

Borrowings as at 31.12.2022

<i>in thousands of euros</i>	Balance on 31.12.2022	Incl. with a term of over 5 years	Incl. with a term of 2-5 years	Incl. with a term of up to 1 year	Due date	Underlying currency	Interest rate
Lease liabilities	32,464	2,598	27,512	2,354	2023-2029	EUR	2.98%
Total borrowings	32,464	2,598	27,512	2,354			

<i>in thousands of euros</i>	Balance on 31.12.2021	Incl. with a term of over 5 years	Incl. with a term of 2-5 years	Incl. with a term of up to 1 year	Due date	Underlying currency	Interest rate
Lease liabilities	63,657	6,676	43,805	13,176	2021-2029	EUR	2.37%
Long-term loans from credit institutions	29,537	0	27,500	2037	2024	EUR	2.85%
Total borrowings	93,194	6,676	71,304	15,213			

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

The Group can draw on the overdraft to the maximum amount of 2,000 thousand euros. As at 31.12.2022 and 31.12.2021, the overdraft limit has not been drawn on. For further information on lease liabilities and borrowings, see Notes 2.2, 2.4, 2.5 and 15, 16.

In 2022, interest expenses on leases were recognised in the amount of 619 thousand euros (2021: 568 thousand euros, Notes 13 and 15) and interest expenses on other borrowings were recognised in the amount of 11 thousand euros (2021: 23 thousand euros) in the statement of comprehensive income.

Note 7 (continued)
in thousands of euros

	Cash and cash equivalents	Borrowings	Lease liabilities	Total
Net debt on 31.12.2020	8,940	-19,928	-65,183	-76,170
Cash flows	7,107	1018	4,721	12,846
Additions	0	-10,627	-3,195	-13,822
Effect of changes in exchange rates	9	0	0	9
Net debt on 31.12.2021	16,056	-29,537	-63,657	-77,137
Cash flows	5,431	2,037	6,933	14,942
Additions	0	0	-84	-84
Effect of changes in exchange rates	-5	0	0	-5
Reclassification to liabilities related to assets held for sale	0	27,500	24,343	51,335
Net debt on 31.12.2022	21,482	0	-32,464	-10,981

Note 8. Provisions
Provisions
in thousands of euros

31.12.2020	682
Adjustment	-127
Use	25
31.12.2021	580
Short-term provision	31
Long-term provision	549
Total provision	580
31.12.2021	580
Adjustment	427
Use	-32
31.12.2022	975
Short-term provision	527
Long-term provision	448
Total provision	975

A provision for benefits for work-related injuries has been formed in the Group to pay compensation for injuries or damage to health sustained by employees in the performance of their duties (Note 1).

The amount of the provision is determined based on the average payout period, which generally extends to the end of the employee's life, and the amount of the benefit payable.

Note 8 (continued)

The payout period has been determined on the basis of Statistics Estonia's data on life expectancy by age. The Group adjusted the accounting principles of the provision for benefits for incapacity for work and changed the discount rate from -0.18% to 3.58%, which is in line with long-term interest rates.

In addition, a provision has been formed for benefits related to the termination of employment contracts in the amount of 452 thousand euros.

Note 9. Trade payables, contract liabilities and other current liabilities

<i>in thousands of euros</i>	Note	31.12.2022	31.12.2021
Accounts payable to suppliers	2.4	2,619	10,488
Other short-term payables	2.4	177	0
Total		2,796	10,488
Taxes payable		487	443
Accruals:			
- payables to employees		1,031	1,447
- social tax accruals		246	307
- other accruals	2.4	612	1,367
Total		2,376	3,564
Grand total		5,172	14,052

The amount of accounts payable to suppliers of 2,619 thousand euros (31.12.2021: 10,488 thousand euros) does not include payables to suppliers for non-current assets (31.12.2021: 6,583 thousand euros). Other accruals in the amount of 612 thousand euros (31.12.2021: 1,367 thousand euros) include clients' deposits in the amount of 329 thousand euros (31.12.2021: 1,177 thousand euros).

As at 31.12.2022, a liability corresponding to the compromise entered into with Eesti Raudtee AS in the amount of 177 thousand euros has been recognised under other current liabilities. According to the compromise, 177 thousand euros must be paid in 2023 and 177 thousand euros in 2024. The amount payable in 2024 is recognised in the balance sheet within the composition of non-current liabilities under "Trade payables and other current liabilities".

Contract liabilities

<i>in thousands of euros</i>	Note	31.12.2022	31.12.2021
Liabilities related to contracts of sale of assets		7,796	0
Liabilities related to leases of assets		42	249
Total prepayments received	2.4	7,838	249

As at 31.12.2023, most of the contract liabilities are related to the sale of wagons for which payments have been made, but not all the conditions of sale are met. Additional information about the completion of the transactions is set out in Note 21.

Note 10. Revenue from client contracts and other operating revenues

Revenue from client contracts by geographical regions

<i>in thousands of euros</i>	2022	2021
Total sales to EU Member States	38,313	52,778
Estonia	35,447	50,544
Finland	1,790	1,991
Denmark	541	0
Germany	258	118
Lithuania	190	77
Latvia	71	47
Other EU Member States	15	2
Sales to outside EU Member States	166	624
Total revenue from client contracts	38,479	53,402

Geographical region indicates the location of the client.

Revenue from client contracts by fields of activity

<i>in thousands of euros</i>	2022	2021
Transport services	28,428	41,059
Supporting and auxiliary transport activities	5,854	7,032
Rental services (Note 15)	3,197	4,292
Maintenance and repairs of rolling stock	763	940
Other	236	79
Total revenue from client contracts	38,479	53,402

Other operating revenues

<i>in thousands of euros</i>	2022	2021
Proceeds from sales of property, plant and equipment	258	213
Sales of inventories	71	22
Contractual penalties, default interest and compensation	513	289
Sales of scrap metal	587	303
Other operating revenues	11	30
Total other operating revenues	1,440	857

Note 11. Operating charges

<i>in thousands of euros</i>	2022	2021
Use of infrastructure	11,334	15,827
Fuel and energy	7,649	7,775
Services related to rail transport	2,169	2,407
Use of freight wagons and containers	790	1,792
Rolling stock repair and maintenance	109	-144
Raw materials	556	975
Other	283	270
Total goods, raw materials and services	22,890	28,903
Consultation and legal services	531	478
Various office expenses	563	510
Other expenses	421	213
Personnel-related expenses	325	330
Insurance service	153	179
Rent and lease	308	314
Temporary agency work	38	136
Energy	259	202
Audit and accounting services	186	123
Transportation expenses	210	123
Marketing and advertising	173	167
Doubtful receivables	79	-168
Total other operating expenses	3,246	2,606

Note 12. Labour costs

<i>in thousands of euros</i>	2022	2021
Salaries and bonuses	11,530	11,684
Social taxes	3,690	3,907
Capitalisation of labour costs	-178	-627
Total labour costs	15,042	14,964

Number of employees

Number of employees at the beginning of the period	542	532
Number of employees at the end of the period	368	542
Average number of employees in full-time equivalents	452	531
Persons working under the contract of a supervisory or management body member	8	8
Persons working under employment contract	360	534
Total	368	542

The table does not include employees in discontinued operations. The number of employees in discontinued operations as at 31.12.2022 was 51 (2021: 38).

Note 13. Financial income and expenses

<i>in thousands of euros</i>	Note	2022	2021
Other financial income		43	15
Interest expenses on leases	7.15	-619	-568
Other interest expenses		-84	-86
Total interest expenses		-703	-653
Gains/losses on changes in exchange rates		-5	-4
Total financial income and expenses		-665	-642

Note 14. Income tax

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

The Finnish legal entities that are part of the Group calculate taxable income and income tax in accordance with the legislation of the Republic of Finland. In the Republic of Finland, the profits are taxed upon distribution thereof at the income tax rate of 20% (2020: 20%).

The statement of financial position does not reflect the potential income tax liability in respect of the Group's unrestricted equity, which would result from the disbursement of the unrestricted equity as dividends (except for temporary tax differences from dividends of Estonian subsidiaries, see also Note 1.11). As at 31.12.2022 and in the reference period, the Group had no liabilities arising from possible temporary tax differences. Income tax arising from the payment of dividends by the Group is recognised under expenses in the statement of comprehensive income at the moment the dividends are declared.

Note 14 (continued)

Income tax expenses	2022	2021
Income tax expenses on dividends, Group	0	-359
Income tax applicable to profits of Finnish subsidiaries	-86	-79
Total	-86	-438

The Group's retained earnings as at 31.12.2022 amount to 10,379 thousand euros (31.12.2021: 26,124 thousand euros). The maximum possible amount of income tax liability associated with the payment of all retained earnings as dividends as at 31 December 2022 is 2,254 thousand euros (31.12.2021: 6,147 thousand euros). The Group can pay out 8,124 thousand euros as net dividends (31.12.2021: 19,977 thousand euros).

Note 15. Leases
Group as lessee

The Group leases various office spaces, workshops, locomotives, parking lots and other facilities under lease agreements, the terms and conditions as well as renewal clauses of which are different and are renegotiated annually. The Group's management is of the opinion that these leases, except for the head office lease and vehicle operating leases, are low-value leases.

Information on lease liabilities, interest rates and interest expenses for the period is provided in Notes 2 and 7 and on right-of-use assets in Note 3.

<i>in thousands of euros</i>	31.12.2022	31.12.2021
Right-of-use assets		
Land, buildings and structures	59	233
Machinery and equipment	28,558	77,996
Total	28,617	78,229
Lease liabilities		
Current	2,354	13,176
Non-current	30,110	50,481
Total	32,464	63,657

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

<i>in thousands of euros</i>	Note	2022	2021
Interest expenses (recognised under financial expenses)	7, 13	619	568
Expenditure on short-term leases (recognised under operating expenses)		1,260	1,026
Depreciation on buildings	3	174	179
Depreciation on means of transport	3	4,459	4,633
Total cash outflows related to leases		6,933	4,721

Note 15 (continued)
Operating leases – Group as lessor

In 2022, the Group earned revenue from the lease of assets under operating leases (rolling stock) in the amount of 3,197 thousand euros (2021: 4,292 thousand euros, Note 10).

Lease revenue from non-cancellable leases in future periods:

	31.12.2022	31.12.2021
Year 1	1,237	13,651
Years 2–5	932	8,877
Over 5 years	0	2,751
Total	2,169	25,279

Assets given on lease include locomotives with an average remaining service life of 24 years.

<i>in thousands of euros</i>	31.12.2022	31.12.2021
Assets given on lease		
Acquisition cost	3,456	78,919
Accumulated depreciation	-494	-23,251
Residual value	2,962	55,668

Note 16. Contingent liabilities

Contingent liabilities arising from tax audits:

The tax authority has not initiated or carried out tax audits of the Group and the companies belonging therein or inspections of a single event in the period 01.01.–31.12.2022. The tax authority is entitled to review the Group's tax accounting within up to 5 years of the due date for filing a tax return and, if errors are identified, impose an additional amount of tax, interest and a penalty. The Group's management believes that there are no circumstances that could result in the tax authority imposing any significant additional tax amounts on the Group companies.

Note 17. Transactions with related parties

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

Note 17 (continued)
Balances with related parties by group

<i>in thousands of euros</i>	31.12.2022		31.12.2021	
	Receivables	Payables	Receivables	Payables
Companies related to the Government of the Republic of Estonia	404	1,313	145	1,643
Total	404	1,313	145	1,643

<i>in thousands of euros</i>	2022		2021	
	Sales	Purchases	Sales	Purchases
Companies related to the Government of the Republic of Estonia	1,726	13,136	2,479	19,197
Companies related to executive management and senior management	0	4	0	4
Total	1,726	13,139	2,479	19,201

Purchase and sale transactions with related parties in 2022 and 2021 include purchases of services, the majority of which accounts for the infrastructure charges to AS Eesti Raudtee, and sales of services. Transactions with related parties are based on market prices and no receivables from related parties were written down (2021: 0).

The balance of the payables related to leases entered into with the companies related to executive management and senior management as at 31.12.2022 is 8,073 thousand euros (2021: 8,413 thousand euros) and capital repayments in the total amount of 341 thousand euros and interest payments in the total amount of 77 thousand euros have been made in the reporting period (2021: 443 thousand and 42 thousand euros, respectively).

Remuneration and other significant benefits calculated for executive and senior management

<i>in thousands of euros</i>	2022	2021
Remuneration calculated for executive and senior management	407	440
Total	407	440

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

Note 18. Additional information on parent company

Statement of financial position

<i>in thousands of euros</i>	31.12.2022	31.12.2021
ASSETS		
Non-current assets		
Prepayments for non-current assets	0	6
Property, plant, and equipment	15,070	14,903
Right-of-use assets	13,694	16,978
Intangible assets	314	391
Long-term financial investments	32,247	50,661
Total non-current assets	61,324	82,939
Current assets		
Inventories	2,686	2,783
Trade receivables	2,111	1,853
Other receivables	1,745	2,520
Cash and cash equivalents	2,211	3,942
Total current assets	8,753	11,098
TOTAL ASSETS	70,077	94,037
EQUITY AND LIABILITIES		
Equity		
Share capital	24,476	24,476
Share premium	17,256	17,256
Legal reserve	389	389
Other reserves	1	1
Retained earnings	5,540	25,954
Total equity	47,662	68,076
Non-current liabilities		
Trade payables and other non-current liabilities	177	0
Lease liabilities	14,989	14,178
Provisions	448	549
Total non-current liabilities	15,614	14,726
Current liabilities		
Trade payables and other current liabilities	5,182	7,643
Lease liabilities	1,129	3,561
Provisions	490	31
Total current liabilities	6,802	11,235
TOTAL LIABILITIES	22,416	25,961
TOTAL EQUITY AND LIABILITIES	70,077	94,037

Note 18 (continued)
Statement of comprehensive income

<i>in thousands of euros</i>	2022	2021
OPERATING REVENUES		
Revenue from client contracts	37,802	54,750
Other operating revenues	617	1,257
Total operating revenues	38,418	56,007
OPERATING CHARGES		
Goods, raw materials and services	-24,140	-
Other operating expenses	-2,886	-2,517
Labour costs	-13,265	-14,411
Depreciation and impairment of non-current assets	-4,773	-4,377
Other operating charges	-97	-97
Total operating charges	-45,162	-
OPERATING PROFIT (-LOSS)	-6,744	4,472
Profit/loss from subsidiaries	-14,114	-
Financial income and expenses	444	10,428
LOSS BEFORE INCOME TAX	-20,414	-3,657
Income tax	0	-359
LOSS FOR FINANCIAL YEAR	-20,414	-4,016
TOTAL COMPREHENSIVE LOSS FOR FINANCIAL YEAR	-20,414	-4,016

Note 18 (continued)
Statement of changes in equity

<i>in thousands of euros</i>		Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
	Note						
Balance on 31.12.2020	6	24,476	17,256	256	1	32,308	74,297
Loss for reporting period		0	0	0	0	-4,016	-4,016
Legal reserve		0	0	133	0	-133	0
Dividends paid		0	0	0	0	-2,205	-2,205
Balance on 31.12.2021	6	24,476	17,256	389	1	25,954	68,076
Loss for reporting period		0	0	0	0	-20,414	-20,414
Balance on 31.12.2022	6	24,476	17,256	389	1	5,540	47,662

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

<i>in thousands of euros</i>	2022	2021
Unconsolidated equity of parent company	47,662	68,076
Book value of subsidiaries in parent company's unconsolidated balance sheet	-32,247	50,661
Value of subsidiaries using equity method (plus)	36,721	52,103
Adjusted unconsolidated equity of parent company	52,136	69,518

Note 18 (continued)

Statement of cash flows

<i>in thousands of euros</i>	2022	2021
Cash flow from operating activities		
Net profit for financial year	-20,414	-4,016
Adjustments		
Depreciation and impairment of non-current assets	4,773	4,377
Financial expenses and loss from subsidiary	13,670	8,128
Income tax	0	359
Profit from sale of non-current assets	-325	-499
Adjustments of reserve of benefits for incapacity for work	-62	-102
Other adjustments	627	-6 183
Total adjustments	18,684	6,080
Change in receivables and prepayments related to operating activities	954	3,923
Change in inventories	97	2,127
Change in payables and prepayments related to operating activities	-2,461	-616
Interest received	219	0
Total cash flow from operating activities	-2,921	7,497
Cash flow from investing activities		
Prepayments paid for non-current assets	0	0
Paid upon acquisition of property, plant and equipment and intangible assets	-1,780	-5,637
Proceeds from sale of property, plant and equipment and intangible assets	521	671
Long-term financial investments	0	-944
Capital returned	4300	0
Loans granted	0	-589
Repayments of loans granted	0	0
Total cash flow from investing activities	3,041	-6,499
Cash flow from financing activities		
Proceeds from sale and leaseback transactions	0	3,144
Loan repayments	0	0
Repayments of overdrafts	0	0
Lease principal repayments	-1,596	-2,084
Dividends paid	0	-2,205
Income tax paid	0	-359
Interest paid	-251	-294
Total cash flow from financing activities	-1,847	-1,798
Total cash flow	-1,726	-800
Cash and cash equivalents at the beginning of the period	3,942	4,746
Change in cash and cash equivalents	-1,726	-800
Effect of changes in exchange rates	-4	-4
Cash and cash equivalents at the end of the period	2,211	3,942

Note 19. Subsidiaries

Subsidiary	Country	Area of activity	Holding 31.12.2022	Holding 31.12.2021
Operail Holding OÜ	Estonia	Activity of head offices	100%	100%
AS Operail owns indirectly through Operail Holding OÜ 100% of:				
AS Operail Leasing	Estonia	Lease of railway rolling stock		
Operail Leasing Finland Oy	Finland	Lease of railway rolling stock		
Operail Finland Oy	Finland	Organisation of rail transport		
Operail Repairs OÜ	Estonia	Rolling stock maintenance, repairs and modernisation		

Note 20. Assets held for sale and discontinued operations

At the end of 2022, the wagon lease business of AS Operail Leasing and the freight transport business of Operail Finland Oy in Finland met all the conditions in order for the assets and liabilities of corresponding operations be reclassified to assets and liabilities held for resale. As these constitute business lines for sale, a distinction is made in the consolidated annual financial statements between continuing and discontinued operations.

Assets and liabilities held for sale

<i>in thousands of euros</i>	Reference	31.12.2022	31.12.2021
ASSETS			
Non-current assets		72,305	0
Inventories		940	0
Other receivables		441	0
Trade receivables		657	0
Cash and cash equivalents	2.5	508	0
TOTAL ASSETS		74,851	0
LIABILITIES			
Trade payables and other current liabilities		2,183	0
Borrowings	2.5	27,500	0
Lease liabilities	2.5	24,343	0
TOTAL LIABILITIES		54,026	0

Note 20 (continued)

The sale of the Finnish freight transport business has been completed in accordance with the owner's expectations as disclosed on 14.02.2023. Assets classified as assets held for sale have been remeasured at fair value as at the balance sheet date less costs to sell – the impact of the remeasurement is 8.7 million euros.

As at the balance sheet date, AS Operail Leasing still had to complete the sale of 1,433 wagons. As at the date of signing the financial statements, all the wagons have been sold. Assets classified as assets held for sale have been remeasured at fair value as at the balance sheet date less costs to sell – the impact of the remeasurement is 1.4 million euros.

REVENUES AND EXPENSES OF DISCONTINUED OPERATIONS

<i>in thousands of euros</i>	2022	2021
Revenue from client contracts	15,415	17,837
Other operating revenues	5,570	881
Total operating revenues	20,985	18,718
Goods, raw materials and services	5,170	5,335
Other operating expenses	1,416	971
Labour costs	3,240	2,929
Other operating charges	78	20
Operating charges	9,905	9,254
Impairment of assets held for sale	-10,150	-6,214
Depreciation of assets held for sale before classification to assets held for sale	-5,983	-6,487
Financial income and expenses	-880	-1,425
LOSS BEFORE INCOME TAX	-5,933	-4,663
Income tax	0	0
TOTAL LOSS FOR FINANCIAL YEAR	-5,933	-4,663

The cash flow in the statement of cash flows of the Group includes both continuing and discontinued operations. The table below shows the net cash flow from discontinued operations in terms of operations.

CASH FLOW FROM DISCONTINUED OPERATIONS

<i>in thousands of euros</i>	2022	2021
Total cash flow from operating activities	13,426	11,834
Total cash flow from investing activities	5,683	-10,495
Total cash flow from financing activities	-7,520	5,795
Total cash flow	11,589	7,134

Note 21. Events after the balance sheet date and going concern

The sole shareholder has set three key expectations for Operail:

- Wagon lease and Finnish freight transport are not strategically important for the state, and these business lines need to be exited.
- Since 01.01.2023 goods originating from the Russian Federation and Belarus may no longer be transported. As Operail Finland Oy transports non-sanctioned goods of Russian origin, and the existence of business volumes fosters the sale of the company as a whole, this restriction has not been applied to Operail Finland Oy on the assumption that the sale will be completed at the beginning of 2023.
- The aim of Operail is to maintain the carriage capacity on the Estonian railways as well as the rolling stock repair resource and do that profitably.

As at the balance sheet date, Operail Finland Oy has in its entirety been recognised in the statement of financial position under assets and liabilities held for sale. On 14.02.2023, the sale of 100% of holding in Operail Finland Oy was completed. The value of the transaction was 27.7 million euros on a loan- and cash-free basis. The non-current assets and related liabilities of AS Operail Leasing (except for the wagon lease business) have also been recognised in the statement of financial position under assets and liabilities held for sale. The sale of the wagon lease business of AS Operail Leasing began already in 2022 and was completed in March 2023. The wagons were sold in total for 51.4 million euros. The economic impacts of the transactions are substantially recognised in the results of the 2022 reporting period. The selling prices of the assets to be sold have not changed after the balance sheet date.

Operail Leasing Finland manages nearly 200 open wagons for wood chips leased from a sanctioned party with a carrying amount of 11.6 million euros. After the balance sheet date, both parties to the lease agreement have expressed their will to terminate the lease agreement, which was confirmed by the signing of an agreement on 19.05.2023 for returning the wagons of Operail Leasing Finland to the credit institution that financed their acquisition. Upon completion of the transaction, the carrying amount of the assets to be transferred will be offset against the balance of the lease liability and the Operail Group will not incur any other significant additional costs. In view of the fact that the counterparty is sanctioned, the Group seeks the formal authorisation of the necessary institutions for completing the transaction, the management acknowledges the risks that the completion of the transaction may involve. However, the Group's management is of the opinion that, bearing in mind all the circumstances, the completion of the transaction is likely, due to which on the reporting date the measurement of the above assets is based on the assumptions that the transaction will be completed. As the entry into the aforementioned agreement is an event after the reporting date, which has no impact on the financial statements of the Group for 2022, then if, due to circumstances beyond the control of the parties, a situation should arise in which the completion of the transaction does not materialise, this would lead to the need for a test of the recoverable amount of the wagons, the potential impact of which would be recognised in the financial statements for 2023. The management is of the opinion that even the recognition of a full write-down in respect of these assets would not result in a negative equity position of the parent company of the Operail Group.

Note 21 (continued)

The military action in Ukraine, which began on 24 February 2022, and the sanctions imposed have had an adverse impact on the business volumes of the Group. The decision of the sole shareholder to terminate the transport of non-sanctioned goods of the Russian Federation has an additional adverse impact on the competitiveness of the company because the fixed cost base cannot be reduced in proportion to the decrease in volumes. The operating loss and repayment of the remaining lease liabilities of the Operail Group are covered by revenues from the sale of non-strategic businesses. In the short term (including within at least a year as of the approval of the financial statements), equity will not fall below the limits set out in the Commercial Code. In the long term, the management is searching for solutions for how to ensure the sustainability of freight transport by rail in Estonia and to encourage its growth. The freight volume of the first four months of 2023 is 73% lower compared to the same period in 2022 and 58% lower compared to the level of December 2022. The management is engaged in finding a replacement for restricted volumes and aligning fixed costs and remaining business volumes.

Proposal for covering loss

The Management Board of AS Operail proposes to the General Meeting of shareholders to cover the net loss of -15,743 thousand euros for 2022 on the account of retained earnings.

Retained earnings after covering the net loss for 2022 are 10,379 thousand euros.

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Raul Toomsalu
Member of Management Board

/digitally signed/

Merle Kurvits
Member of Management Board

29.05.2023

Signatures of members of Management Board

The Consolidated Annual Financial Statements of AS Operail for the financial year that ended on 31.12.2022 comprise the management report, the social responsibility report, the report on good corporate governance, the consolidated financial statements, the independent statutory auditor's report and the proposal for covering loss.

The Management Board of the company has prepared the management report, the social responsibility report, the report on good corporate governance, the financial statements and the proposal for covering loss.

/digitally signed/

Raul Toomsalu

Member of Management Board

/digitally signed/

Merle Kurvits

Member of Management Board

29.05.2023

Independent statutory auditor's report

