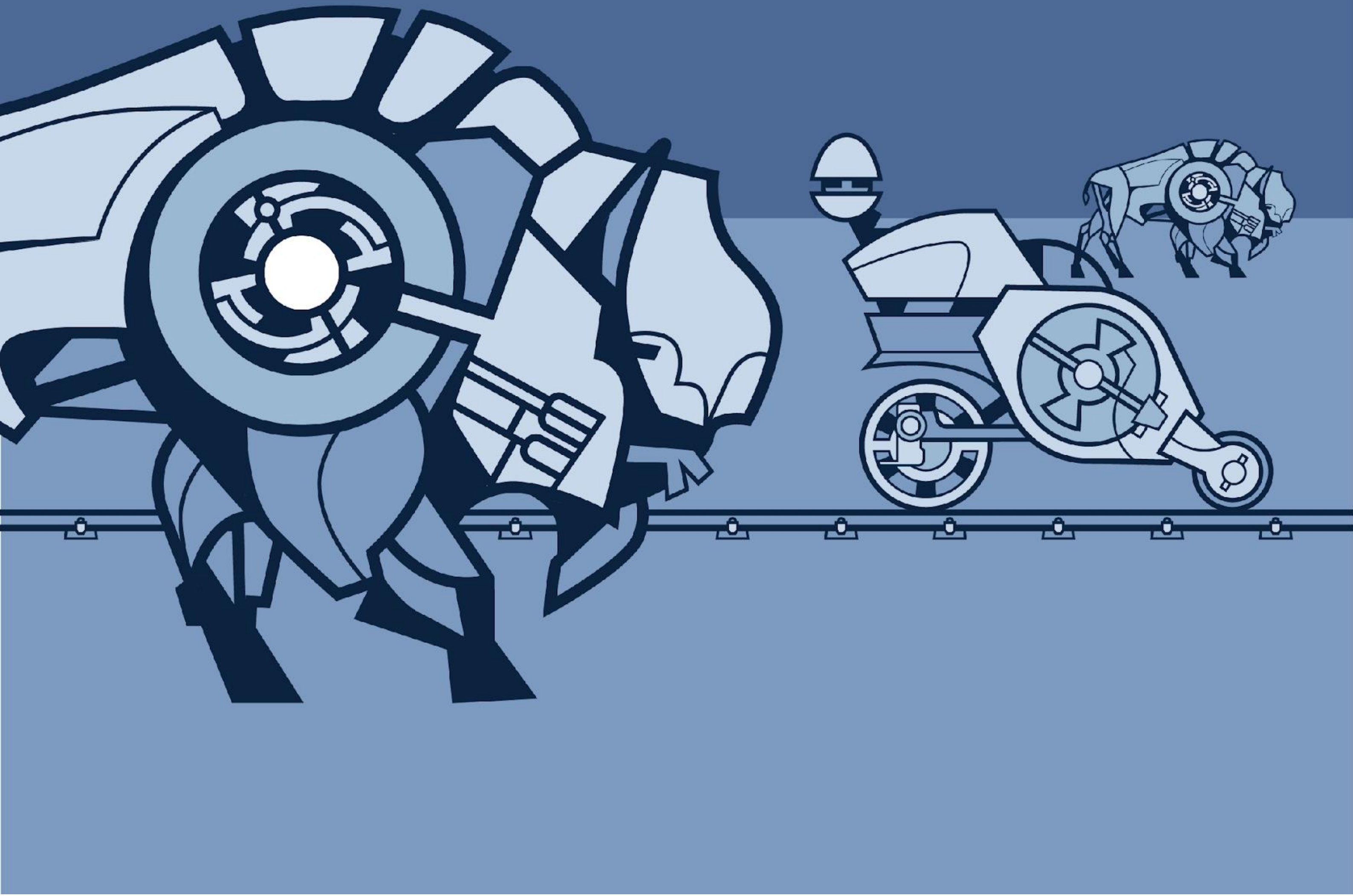
Consolidated Annual Financial Statements

for financial year ended on 31 December 2023

AS OPERAIL



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Main activity:	Organisation of rail transport
Auditor:	KPMG Baltics OÜ

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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 150 years. Until the end of 2022, the companies of the Operail Group operated in three lines of business:

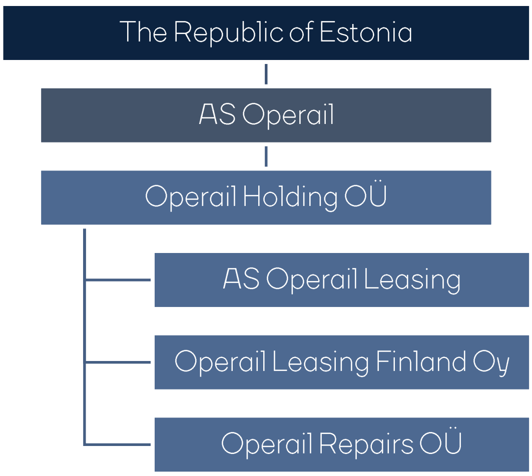
- Freight transport in Estonia
- Rolling stock rental on the 1,520 mm and 1,524 mm railway
- Maintenance and repair of rolling stock and modernisation of locomotives

As of 2023, the Group's main activity is:

- Freight transport under limited conditions in Estonia
- Maintenance and repair of rolling stock

Operail adheres to the principles of sustainability and responsible business practices. We believe in a cleaner and safer future and we know that we have a role to play in this with our actions. We aim to be a responsible and preferred partner in the railway sector, offering environmentally friendly, cost-effective, and safe logistics and rolling stock-related services. As a railway carrier of bulk and dangerous goods, the Group can be considered a heightened environmental risk. We adhere to all established rules and regulations and take preventive measures to minimise the risks associated with social, economic, and natural environments.

The sole shareholder of AS Operail is the Republic of Estonia. Through Operail Holding OÜ, AS Operail owns 100% of all the subsidiaries. The figure below sets out the Group structure as at 31.12.2023.



Key financial indicators

million €	2023	2022
Operating revenues	26.6	60.9
EBITDA	-0.3	9.7
EBITDA margin	-1%	16%
Net loss	-19.2	-15.7
Return on equity	-45%	-26%
Equity ratio	50%	34%
Net debt	6.3	62.3
Net debt/EBITDA	-18.1	6.4

Formulas:
EBITDA = Operating profit + Depreciation and impairment of non-current assets
EBITDA margin = EBITDA / Operating revenues
Net loss margin = Net loss / Operating revenues
Return on equity = Net loss / Total average equity for the reporting period
Equity ratio = Equity at the end of the reporting period / Assets at the end of the reporting period
Net debt = Total non-group lease liabilities and borrowings at the end of the reporting period – Cash at the end of the reporting period

Overview of events during the reporting period

The large-scale military action in Ukraine, which began on 24 February 2022, and the sanctions imposed have had an adverse impact on the Group's revenue. The change in the market situation has negatively affected the freight volumes (transit transport between the West and the East previously made up a significant part of the freight volumes of the Operail). As of 1 January 2023, the owner has prohibited Operail from transporting non-sanctioned goods from Russia and Belarus. As the same prohibition does not apply to other companies competing in the same market segment, the prohibition significantly impairs Operail's competitive position and thereby its revenue base.

To compensate for the negative impact of the decrease in freight volumes, Operail placed a great emphasis in 2023 on improving the efficiency of its operational and business processes and the development of client relationship within rail transport. For this purpose, the Group cooperated with large and small clients and other companies in the logistics sector.

At the beginning of 2023, Operail completed the exit of the business areas that are non-strategic for the Estonian state by selling the assets of the wagon lease business and the Finnish freight transport company, as was the owner's expectation.

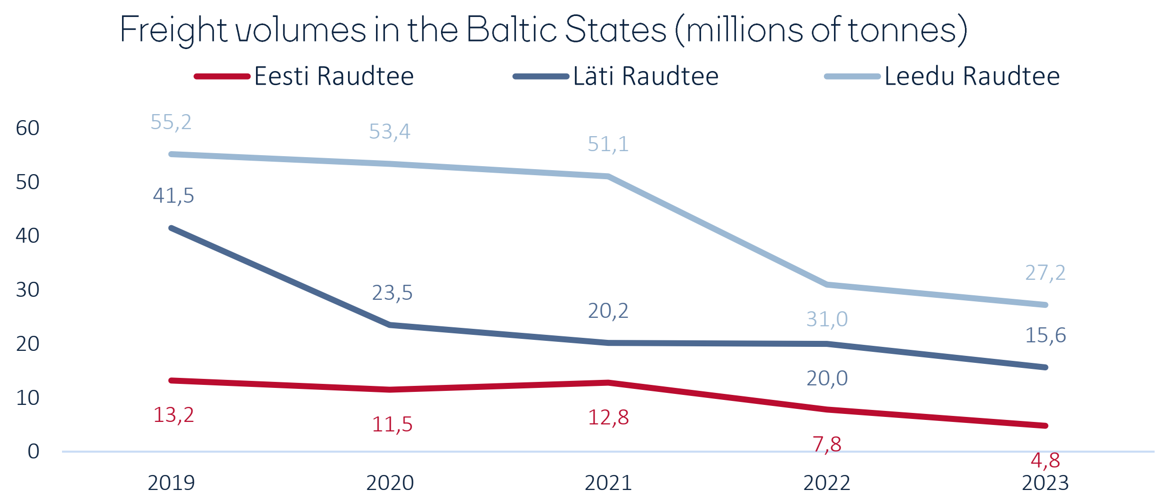
In the second half of 2023, the Management Board developed and presented to the owner Operail's future strategy the aim of which is to compensate for the decrease in Estonian freight volumes by engaging the private sector and entering new markets. This would improve Operail's market position, restore profitability, and thereby contribute to the sustainability of Estonia's railway business. Work on implementing the new strategy will continue in 2024.

Overview of events in Estonia and neighbouring countries

The freight transport volume on the Estonian public railway as a whole was 4.8 million tonnes in 2023 (-39% compared to 2022). The most important commodity groups were liquid mineral fuels (1.6 million tonnes; -29% compared to 2022), bulk goods (0.8 million tonnes; +25% compared to 2022), and oil shale (0.9 million tonnes; -45% compared to 2022).

The freight volume on Latvian railways amounted to 15.6 million tonnes in 2023 (-28.0% compared to 2022). The most important commodity groups were cereal grain, seeds, and fruits (5.7 million tonnes; +33% compared to 2022), oil and oil products (2.7 million tonnes; -38% compared to 2022), and coal (1.7 million tonnes; -65% compared to 2022).

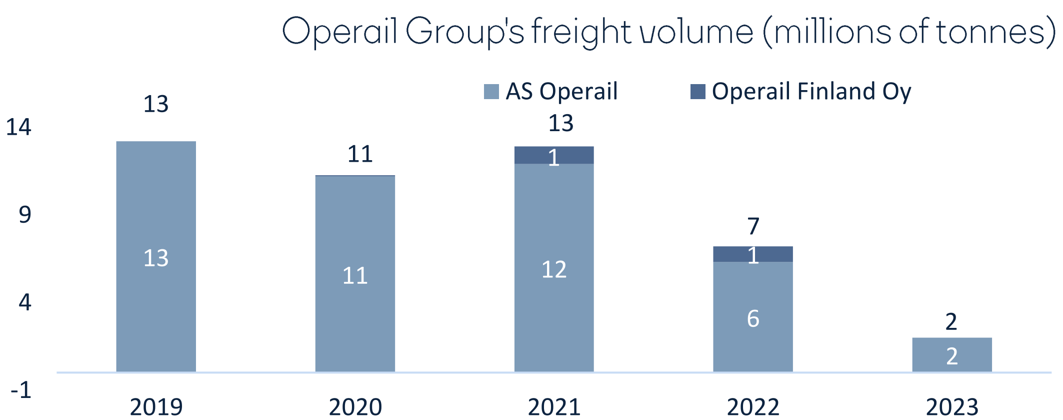
The freight volume on Lithuanian railways amounted to 27.2 million tonnes in 2023 (-12% compared to 2022). The most important commodity groups were oil and oil products (9.4 million tonnes; +0% compared to 2022), construction products (5.6 million tonnes; -2% compared to 2022), and cereal grain (4.8 million tonnes; +31% compared to 2022).



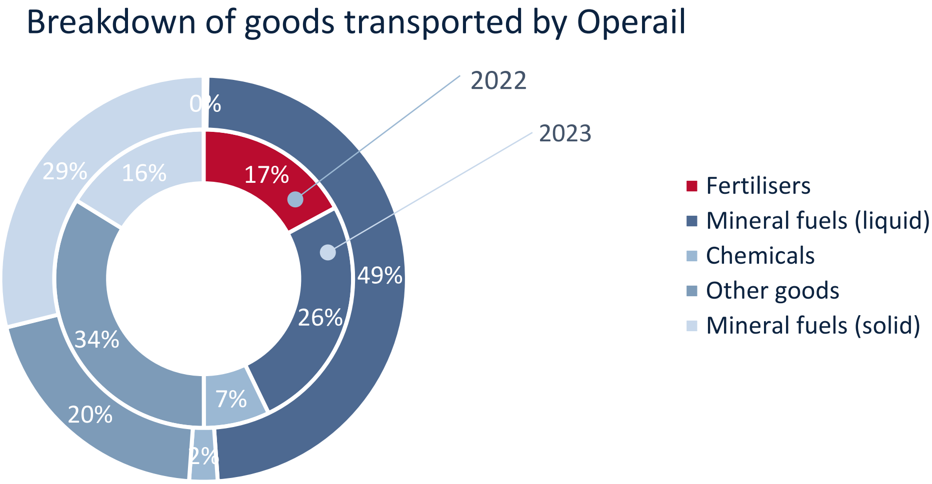
Sources: Estonian Railways, VIA Latvia, Lithuanian Railways.
Comments: The freight volume of Lithuanian Railways includes only the volume transported on Lithuanian Railways by AB LTG Cargo.

Overview of freight transport of Operail

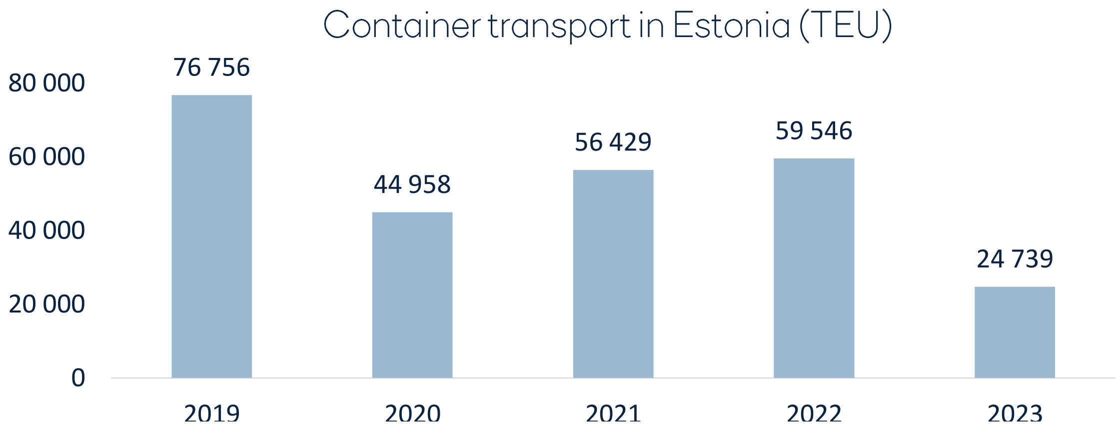
In 2023, the total freight volume of the Operail Group in Estonia was 2.0 million tonnes (-69% compared to 2022). This made up 42% of the total freight carried on the infrastructure of AS Eesti Raudtee.



The decline in the freight volume of AS Operail compared to the previous year was mainly related to the sanctions imposed to Russia and Belarus, additional sanctions imposed by the owner of Operail, partial diversion of local timber and scrap metal volumes to road transport, and the smaller than forecasted grain harvest. The commodity group of liquid mineral fuels accounted for the greatest volume in this reporting period – 0.96 million tonnes (-41% compared to the same period in 2022). The second commodity group in terms of freight volume was that of solid mineral fuels – 0.57 million tonnes (-44% compared to the same period in 2022). The third commodity group in terms of freight volume was that of other goods – 0.13 million tonnes (-28% compared to the same period in 2022). Of the total freight volume, transit comprised 10% (0.2 million tonnes), decreasing 95% over the year.



The freight volume of container goods was 177 thousand tonnes in 2023 (-62% compared to the same period in 2022). The volumes decreased in the case of multimodal transport within Estonia by 28%, in the export by 81%, in the import by 99.5%, and in the transit by 98%. The annual freight volume was 24,739 TEU (-58% compared to the same period in 2022).



The most significant decline in the freight volume for Operail occurred in the transport to and from Russia due to the war in Ukraine: the total volume decreased -100% over the year – from 3.6 million tonnes in 2022 to 0 tonnes. The freight volume with Belarus in 2023 was also 0 tonnes, decreasing -100%.

The freight volume with Lithuania was 0.7 million tonnes (-13% compared to 2022), with Kazakhstan 0.2 million tonnes (-29% compared to 2022), with Latvia 33 thousand tonnes (-86% compared to 2022) and with Uzbekistan 24 thousand tonnes (-11% compared to 2022).

Transit accounted for 10% (2022: 61%) of the total freight volume.

Overview of maintenance and repair of rolling stock

The depots of Operail Repairs OÜ in Muuga and Tapa service mostly companies that belong to the Operail Group and, to a limited extent, other clients, including Finnish companies. Rolling stock is maintained and repaired, and to a small extent, other metal works are also carried out. Out of the planned 13 locomotives included in the modernisation project of the new C30-M locomotives, 12 have been completed, and the modernisation of one locomotive has been suspended due to changes in the economic environment.

Discontinued operations

As of 31.12.2023, all the wagons of AS Operail Leasing have been sold (as of 31.12.2022, the company had in total about 2,000 wagons). As of 31.12.2022, the wagon lease business of AS Operail Leasing was recognised in the statement of financial position as assets and liabilities held for sale and in the income statement as discontinued operations.

The sale of the Finnish freight business was completed on 14.02.2023 according to the owner's expectations. As of 31.12.2022, Operail Finland Oy has been recognised in the statement of financial position as assets and liabilities held for sale and in the income statement as discontinued operations.

As of 31.12.2023, all wagon lease agreements of Operail Leasing Finland Oy have been terminated and the wagons have been transported to Estonia. As of 31.12.2023, Operail Finland Oy has been recognised in the income statement as discontinued operations.

Performance results of continuing operations

In the income statement of the Group, the wagon lease business of AS Operail Leasing, the freight transport of Operail Finland Oy in Finland and the wagon lease business of Operail Leasing Finland Oy in Finland have been recognised as discontinued operations. Here are some major changes in the revenues and expenses of continuing operations compared to 2022:

- The revenues related to freight transport decreased by 17.7 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 12.4 million euros. The cumulative impact on profit was -5.4 million euros.
- The rolling stock rental revenues decreased by 0.9 million euros due to the decline in freight volumes.
- The rolling stock repair and maintenance revenues increased by 0.6 million euros.
- The increase in other operating revenues by 1.6 million euros is mostly due to the sale of scrap metal in 2023, as a result of the scrapping of locomotives unsuitable for use.
- In the financial year, the Group engaged actively in aligning its business volumes and fixed costs. Various operating expenses were 0.3 million euros lower due to the reduced number of operating locations (savings on property rent, heating, etc.) and lower insurance volume.
- Labour costs decreased by 4.3 million euros. The reduction in the number of employees resulted in a lower labour cost base. In addition, a reserve for expenses related to employment relationships ending in 2024 was formed at the end of 2023.
- Depreciation and impairment of value decreased by 2.5 million euros in connection with the reduced volume of non-current assets and the impairment of value being smaller than in 2022.

Investments

In 2023, the Group invested a total of 0.8 million euros (2022: 2.2 million euros). Main investments were made in major repairs for Estonian freight transport. In 2024, only investments necessary to ensure the sustainability of the company's business are planned – primarily in major repairs and equipment. A locomotive heating project was launched in 2023 to improve the efficiency of freight processes, particularly in periods with freezing temperatures. This project will continue in 2024.

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. The company did not pay dividends in the financial year (no dividends were paid also in 2022).

Future outlook

The military action in Ukraine, which began on 24 February 2022, and the sanctions imposed on Russia have negatively impacted 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 from the Russian Federation and Belarus. 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 management is engaged in finding a replacement for restricted volumes and aligning fixed costs and remaining business volumes.

In the second half of 2023, the Management Board developed and presented to the owner Operail's future strategy the aim of which is to compensate for the decrease in Estonian freight volumes by engaging the private sector and entering new markets. This would allow improving Operail's market position, restore profitability, and thereby contribute to the sustainability of Estonia's railway business.

At the beginning of 2024, the sole shareholder decided to privatise the company. The company has engaged a legal and financial counsellor to ensure that the sales process takes place in conformity with regulatory requirements and best practices. Work on successfully privatising the company and implementing the new strategy continues in 2024.

Risk management

To hedge currency risks, the majority of contracts are 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.

Corporate social responsibility

The development of the railway sector is currently mainly shaped by two key concepts: environmental sustainability and the 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), increase efficiency, and improve the client experience through digital solutions.

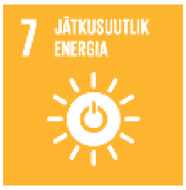
The greatest responsibility of Operail in society is to provide clients with the most efficient and safest transport for their goods while causing minimal harm to people and the surrounding environment. Our responsible operation is based on three pillars:

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

In 2023, we actively worked on establishing the company's ESG strategy and planning the principles of sustainability. In preparing the strategy and the activity plan, we rely on the international SASB standard.

We are committed to the UN Sustainable Development Goals[1]:

Our team is diverse and in good health, and we place great importance on its wellbeing.



We strive to ensure that our locomotive fleet promotes energy efficiency, is modern, and uses the cleanest fossil fuel technology.

We are focused on introducing new technologies, innovation, and work-intensive sectors with a high added value.

We cooperate with the industrial sector and are the spokespersons in creating conditions for the development of Estonian railway freight transport to ensure efficient cooperation between the railway and the industrial sector.

Since our activities involve freight transport that hurts the climate, our goal is to move goods from roads to railways.

Everything we do, we do honestly, and we do not tolerate corruption. Our decision-making process is responsive, inclusive and promotes participation.

[1] UN Global Compact: https://unglobalcompact.org/

Environmental conservation and carbon footprint

Rail transport is the most sustainable type of land transport known today. Compared to road transport, rail freight transport uses up to four times less fuel and emits up to six times less CO2. Replacing road transport with rail transport is more beneficial for the environment. It also helps improve traffic safety because rail transport is up to 28 times safer than road transport and reducing the number of trucks on the road makes the roads safer for other road users.

Therefore, the goal established by the "Estonian Transport and Mobility Development Plan 2021-2035" is that 40% of the goods in Estonia will be transported by rail in 2035. Operail as the rail freight transport company with the largest market share in Estonia plays a key role in achieving this goal.

We take into account the climate goals and want our activities to contribute to reducing the adverse impact of transport as this is one of the activities with the largest greenhouse gas emissions. We can directly contribute by upgrading our equipment base. However, we also believe that our impact is greater in cooperation with partners – Eesti Raudtee, the ports, industrial clients and other carriers. Therefore, we are involved in the creation of national transport development plans and actively participate in joint discussions. We are one of the most active participants in developing the sector and facilitating a modal shift. Additionally, we ensure that development plans include measures to bring the railway infrastructure into conformity with the needs of today's industrial regions.

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 2023, the overall decrease in the freight volume also impacted the volume of multimodal transport. We have brought a total of 7,190 containers from road to railway (2022: 10,144), which was 29.1% less than in the previous year (2022: increase +29.7%), i.e., more than 14,000 trucks have been brought from road to railway. In 2024, we plan to continue developing the multimodal transport service in order to improve competitiveness with road transport and attract more goods to the railway.

Our goal is to reduce all emissions causing air pollution. This means using electricity that is obtained from renewable energy sources in the maximum extent possible, using new technologies in locomotives, and increasing the energy efficiency and overall efficiency of transport and support processes. Unfortunately, it has not been possible to reduce fuel consumption proportionately to the decrease in freight volumes, as the decrease in freight volumes has increased the share of shunting in transport, and shunting is more fuel-intensive.

	2023	2022	2021
The share of green energy in the energy consumption of Operail	82%	91%	87%
CO_2 equivalent per net tonne-kilometre	24	18	14

In recent years, we have been working on several new projects aimed at reducing the carbon footprint: upgrading Operail's car fleet, building electrical connections for the wintertime heating of locomotives previously done with diesel fuel, etc. In 2023, we equipped 5 locomotives with a new heating system and built electrical connections at 4 operation sites. The projects will continue also in 2024.

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 joint digital freight transport information system. In 2022, we transferred the entire process of train planning and movement to the information system. In 2023, we started using the information system for work time planning and monitoring and for managing shunting works.

The information system digitised several processes that were still done on paper and thereby significantly reduced the use of paper documents, resulting in a positive effect on the environment. The aim is to move forward with the development of RailCube to the point where all of Operail's needs are covered without using paper.

We ceased printing the company's internal newsletter in 2023, replacing it with virtual articles and extending access to virtual environments also to employees who do not work on computers. Every month, we publish stories about our people, work projects, and the rail transport sector in the articles section of our internal web. Although we previously used uncoated paper made from recycled fibre for printing our internal newsletter, we found an opportunity to further reduce its environmental impact.

Social responsibility

Work and railway safety

Our focus is both on the safety of the environment, people, and goods on the railway, as well as a safe 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 2023 due to the fault of Operail.

The reported incident rate has increased due to the decreased freight volume. The number of reported incidents was smaller in 2023 than in 2022. As freight volumes were significantly reduced in 2023 (the number of kilometres traversed was more than two times smaller than in 2022), the value of the index appears greater.

	2023	2022
The number of technical incidents (according to ESG methodology)	13	28
Total recordable incident rate (TRIR)	2.33	1.92

In 2023, there were no leaks caused by accidents (NAR) or non-accident releases (NARs). NAR 0, NARs 6).

To ensure railway safety, we implement activities that are divided into technical and safety culture measures. Traffic safety begins with employee training. To this end, professional requirements and regular examinations as well as training courses are in place to develop and refresh the knowledge and skills of employees.

We established 10 safety goals for 2023, of which we did not achieve 3 (1 occupational accident, 1 disregard for a prohibitive signal, 1 collision with railway rolling stock or other structure). To fulfil the goals, we planned 62 activities in three categories (safety of the working environment, traffic safety, and general activities to improve the safety culture). Of these 62 activities, we completed 87%, with activities in progress and pending activities each amounting to 3.2%, partly implemented activities amounting to 4.8%, and one activity cancelled (1.6%).

Locomotives are equipped with technical systems that detect potentially 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. In 2023, we inspected 3,518 onboard recorders, i.e. nearly 69% of all the journeys. In the course of the inspections, deviations (including technical faults) were detected on 7 occasions (nearly 2% of the inspected journeys). The share of locomotive driving errors in all the inspected journeys was less than 1%.

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 the course of this process, in cooperation with Eesti Raudtee, we have decided to create a joint map of pollution control equipment to ensure access to all the equipment in the event of an emergency.

To acquire the best practices in the railway sector, we have continued cooperation with other railway companies with whom we meet regularly on safety issues, exchange experiences, and share information on the measures implemented.

Operail regularly takes part in exercises in cooperation with ambulance and rescue workers. The main purpose of these exercises is to practise responding to accidents involving mass casualties and helping casualties, as well as to increase safety awareness among our employees and the general public. In 2023, we participated in two exercises – CREVEX2023 and Pääsküla Express.

A contribution to railway safety outside the company was also provided by 10 voluntary safety ambassadors of Operail who visited schools, nursery schools, and children's events in Estonia to introduce railway safety. In 2023, we trained a total of 370 children.

With regard to occupational safety, we consistently implement risk analyses, collect regular employee feedback, and conduct 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). To improve the safety culture in the organisation, we hold quarterly virtual meetings for all employees, where they are given an educational overview of the safety incidents that have happened, and are reminded of safety rules.

In 2023, one occupational accident was recorded in Operail (2022: 3). The Lost Time Injury Frequency Rate (LTIFR) in 2023 was 2.1 (2022: 2.46). The number of occupational accidents decreased by 2 compared to 2022, and the number of lost workdays due to accidents in 2023 was 1 (2022: 130).

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 2023, we standardised the incident investigation process and started redesigning the practice of conducting post-incident operative meetings (continued in 2024).

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 vocational schools. Railway companies train their staff. The employees of Operail are experts with an average of 20 years of experience, whose knowledge is valued throughout the 1,520 mm railway.

Operail is an 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, Maardu and 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 also pay special attention to involving our employees in the Estonian-language information and communication space in order to improve their coping and integration in Estonian society. We 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.

In 2023, we involved a representative of the Estonian Language House to introduce state-provided opportunities for supporting learning the Estonian language. We launched Estonian language cafes in the company, where employees who speak other languages can practice their Estonian language skills, communicating on various topics.

Although in 2023 men accounted for 67% and women 33% of the Operail staff, the share of women among drivers was 37.5% as of the end of the year.

The development of employees is important for Operail, and a separate training manager works in Operail to ensure a broad-based training programme. 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 2023, managers' training focused on change management from the psychological viewpoint of employees. Change management is crucial for our company's future. The lecture series offered support to managers and their development as well as that of key employees in periods of change.

We conducted a cyber hygiene training course in which 98% of the Group's employees participated. The training aimed to improve the employees' risk awareness and provide them with information on safe conduct on the Internet. This is important for all computer users, both in their work and private lives, to ensure their protection and that of their families.

In 2024, the main areas of training in Operail will be management (including change and project management), raising awareness of digitalisation (incl. AI systems), and promoting an internal training culture.

We promote work-life balance by offering flexible working conditions. For positions that do not require on-site presence, we allow employees to work partially remotely.

Twice a year, a company-wide physical activity month is held to promote physical activity among the staff. We also offer everyone the chance to participate in various sports competitions as part of the Operail team.

Since 2021, we have held a Health Week every autumn: all our employees can participate in lectures focusing on mental and physical health. The lecturers have included various experts in their fields – doctors, scientists, physiotherapists, coaches, therapists, etc. The aim is to improve and preserve our employees' health by increasing their awareness and motivation.

Every year, we take part in charity actions that support cultural and memory institutions related to the railway sector. In 2023, for example, we held two volunteer workdays at the Lavassaare narrow-gauge railway museum, helping the museum renovate a degraded railroad section to ensure safety in driving museum visitors on the historical rolling stock.

We remember our employees at important celebrations. We organise both team and company-wide joint events. Once a year, we recognise our long-time employees and employees' self-initiative.

Due to the economic situation, we have made more than half of the Group's employees redundant in 2022 and 2023, which has been a major challenge from the viewpoint of both the organisation and the employees. Operail places great importance on an ethical approach to the redundancy process and on supporting people in their transition to a new career path. The redundancy process is honest, transparent, empathetic, and dignified: we always strive to prioritise the interests and needs of the employees being made redundant. We start the redundancy process by meeting with the employees to explain the reasons for the situation and to offer them individual counselling and support.

Our objective is to help the employees being made redundant to find new opportunities and discover new career paths. In the event of collective redundancies, we organise meetings with the representatives of the Unemployment Insurance Fund at the company, where the representatives introduce state-provided services aimed at the unemployed people and career changes. We also communicate with other companies operating in the same sector to inform them of the released workforce and introduce opportunities for recruiting new talents. We give the employees being made redundant information about vacancies and offer assistance in preparing CVs and in career counselling.

Operail as an ethical and open-minded company

Our goal is to be a company with honest and law-abiding staff that is open and visible to society, that behaves ethically, communicates proactively with stakeholders and the wider public, is transparent regarding the risks involved, and takes responsibility for solving local problems in the communities where we operate.

Our management practices are honest, fair, and responsible. Our daily business activities are based on high ethical standards. We act in accordance with good business practices and always comply with all the applicable laws and regulations. We expect our business partners to comply with the same principles and have always placed a great emphasis on the background check of our partners; however, in 2022, we took one step further and created a Group-wide standardised procedure for the background check of our partners. In 2023, we worked on updating and improving the efficiency of this standardised procedure. We will continue this also in the coming year.

As in 2022, the number of fraud, ethics and corruption cases in Operail was zero in 2023, and there were no cases of non-compliance with laws and regulations with significant impact.

We plan to focus more on ethical behaviours in 2024. The company's Code of Ethics was completed at the beginning of the year. In 2024, we will conduct training for our employees, including reminding them of violation reporting options and the protection of the rights of those who report violations. We continue to welcome tips on suspected corruption through a publicly available anonymous whistleblowing channel that can be found on our website.

Corporate governance report

General Meeting

During the 2023 financial year, the Republic of Estonia was the sole shareholder of AS Operail and therefore there is no need to cover the compliance with the Corporate Governance Recommendations (CGR) principles ensuring the equal treatment of shareholders in this report.

The shareholder expectations that were approved in 2022 and have been published on the website of AS Operail are still valid.

The sole shareholder updated the company's articles of association on 31 January 2023 and recalled Leon Jankelevitsh from the position of the Chairman of the Supervisory Board. On 14.02.2023, Kaido Saar was elected as the new Chairman of the Supervisory Board.

On 31.05.2023, the Republic of Estonia as the sole shareholder, under law represented by Kristen Michal, the Minister of Climate, passed the resolution of the Annual General Meeting approving the annual financial statements of AS Operail for 2022 and recording of the net loss in retained earnings. In addition, the management and reporting principles of the Operail Group were approved.

On 22 August 2023, the sole shareholder recalled Supervisory Board member of AS Operail, Indrek Gailan, and appointed Andres Lindemann as the new Supervisory Board member.

Supervisory Board

In 2023, the following persons served on the Supervisory Board of AS Operail:

1. Leon Jankelevitsh from 24 May 2020, as the Chairman of the Supervisory Board until 31 January 2023
2. Indrek Gailan from 21 November 2019 until 22 August 2023
3. Kaido Saar from 24 May 2020, as the Chairman of the Supervisory Board from 14 February 2023
4. Tarmo Porgand from 24 May 2020
5. Siret Liivamägi from 1 June 2020
6. Andres Lindemann from 22 August 2023

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 2023, the Supervisory Board held 17 meetings and adopted 10 resolutions without convening a meeting. In total, the Supervisory Board adopted 43 resolutions in 2023.

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

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.

In 2023, the members of the Audit Committee included Erik Štarkov (Chairman), Indrek Gailan, after his departure Andres Lindemann, Leon Jankelevitsh (until 31.01.2023), and Kaido Saar.

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 18.12.2023, the member of the Management Board Raul Toomsalu was removed and Merle Kurvits remained as a sole member of the Management Board.

The Management Board followed the requirements of the CGR, 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's 100% subsidiaries Operail Repairs OÜ and Operail Holding OÜ were established with Decision No. 1.1-5/21-026 of the sole shareholder of AS Operail on 13 May 2021. Under the same decision, AS Operail's former holdings in subsidiaries (Operail Repairs OÜ, AS Operail Leasing, Operail Finland Oy, and Operail Leasing Finland Oy) were fully transferred to Operation Holding OÜ. Thus, AS Operail has a holding (100%) in Operail Holding OÜ which in turn has 100% holdings in AS Operail Leasing, Operail Leasing Finland Oy, and Operail Repairs OÜ. Operail Holding OÜ transferred the holding in Operail Finland Oy on 14 February 2023.

Operail Holding OÜ

Operail Holding OÜ was established on 20.05.2021. Its members of the Management Board are members of the Management Board of AS Operail. There is no Supervisory Board. The function of the subsidiary is to hold the shares of the other subsidiaries. As Raul Toomsalu left the management boards of all the Group companies on 18 December 2023, Merle Kurvits has since then been the company's only Management Board member.

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. Until 18 December 2023, the Chairman of the Management Board of AS Operail, Raul Toomsalu, was the Chairman of the Supervisory Board of AS Operail Leasing, and Kaido Saar and Valentin Pallase were the members of the Supervisory Board. However, on 19 December 2023, Kaido Saar was elected as the new Chairman of the Supervisory Board, and Tarmo Porgand was elected as a member. In the reporting year, Merle Kurvits and Tuuli Mizer were members of the Management Board of AS Operail Leasing.

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. The member of the Management Board until 18.12.2023 was Raul Toomsalu. After that, Merle Kurvits has been a 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

Until 18.12.2023, the member of the Management Board was Tuuli Mizer, and an alternate member was Raul Toomsalu. As Raul Toomsalu left the Group on 18.12.2023, Merle Kurvits was appointed as a member of the Management Board, and Tuuli Mizer as an 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

On 3 January 2023, the sole shareholder granted its consent to transfer Operail Holding OÜ's 100% holding in the subsidiary Operail Finland Oy to North Rail Holding Oy. The relevant contract was concluded on 14 February 2023.

Remuneration and compensation

The remuneration and compensation of the members of the Management Board of the public limited company are established in the agreements concluded with the members of the Management Board and discussed and approved by the Supervisory Board. Termination-of-contract compensation is only paid to a member of the Management Board if he or she is recalled by the Supervisory Board before the expiry of his or her term of office and the compensation paid to him or her must not exceed the three months' remuneration of the member of the Management Board. 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 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 30 May 2023, the Supervisory Board of AS Operail approved the Management Board's performance pay for the results of 2022.

Prevention of conflicts of interests

In 2023, 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 (see Note 17).

The members of the Management Board did not engage in business in the same area of activity with the company and did not fulfil other work tasks outside the fulfilment of their duties as members of the Management Board which would violate Subsection 2.3.3 of the CGC.

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 document “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 applicable in the European Union.

Consolidated Annual Financial Statements

Consolidated Statement of Financial Position

in thousands of euros	Note	31.12.2023	31.12.2022
ASSETS			
Non-current assets			
Property, plant and equipment	3	19,833	19,666
Right-of-use assets	3, 15	7,265	28,620
Intangible assets	3	0	314
Total non-current assets		**27,099**	**48,599**
Current assets			
Inventories	4	3,478	4,037
Other receivables	2, 5	5,438	508
Trade receivables	2, 5	1,627	3,678
Cash and cash equivalents	2	23,249	21,482
Assets held for sale	20	6,277	74,851
Total current assets		**40,070**	**104,555**
TOTAL ASSETS		**67,169**	**153,155**
EQUITY AND LIABILITIES			
Equity			
Share capital	6	24,476	24,476
Share premium	6	17,256	17,256
Statutory reserve capital	6	391	391
Other reserves	6	1	1
Retained earnings	14	-8,785	10,379
Total equity		**33,340**	**52,503**
Non-current liabilities			
Trade and other non-current payables	9	0	177
Lease liabilities	2, 7, 15	10,145	30,110
Provisions	8	550	448
Total non-current liabilities		**10,695**	**30,735**
Current liabilities			
Trade and other current payables	9	16,802	5,172
Contract liabilities	9	33	7,838
Lease liabilities	2, 7, 15	756	2,354
Provisions	8	1,249	527
Liabilities related to assets held for sale	20	4,294	54,026
Total current liabilities		**23,134**	**69,917**
TOTAL LIABILITIES		**33,829**	**100,652**
TOTAL EQUITY AND LIABILITIES		**67,169**	**153,155**

The Notes presented on pages 25-60 form inseparable parts of the Annual Financial Statements.

Consolidated Statement of Comprehensive Income

in thousands of euros	**Note**	**2023**	**2022**
CONTINUING OPERATIONS			
Revenue from client contracts	10	20,716	36,852
Other income	10	2,416	934
Total operating revenues		**23,132**	**37,786**
Goods, raw materials and services	11	10,522	22,844
Operating expenses	11	2,506	3,187
Labour costs	12	10,750	15,042
Depreciation, amortisation and impairment	3	3,887	6,398
Other expenses		471	100
Total operating charges		**28,136**	**47,571**
OPERATING PROFIT (LOSS)		**-5,004**	**-9,785**
Financial income and expenses	13	294	-288
PROFIT (LOSS) BEFORE INCOME TAX		**-4,710**	**-10,073**
Income tax	14	0	0
LOSS FOR FINANCIAL YEAR FROM CONTINUING OPERATIONS		**-4,710**	**-10,073**
Loss for the financial year from discontinued operations	20	-14,453	-5,670
TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR		**-19,163**	**-15,743**

The Notes presented on pages 25-60 form inseparable parts of the Annual Financial Statements.

Consolidated Statement of Changes in Equity

in thousands of euros	Note	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings	Total
Balance on 31.12.2021	6	**24,476**	**17,256**	**389**	**1**	**26,124**	**68,246**
Comprehensive loss for the reporting period		0	0	0	0	-15,743	**-15,743**
Statutory reserve capital		0	0	2	0	-2	**0**
Balance on 31.12.2022	6	**24,476**	**17,256**	**391**	**1**	**10,379**	**52,503**
Comprehensive loss for the reporting period		0	0	0	0	-19,163	**-19,163**
Statutory reserve capital		0	0	0	0	0	**0**
Balance on 31.12.2023	6	**24,476**	**17,256**	**391**	**1**	**-8,784**	**33,340**

The Notes presented on pages 25-60 form inseparable parts of the Annual Financial Statements.

Consolidated Statement of Cash Flows

in thousands of euros	**Note**	**2023**	**2022**
Cash flow from operating activities			
Net profit		**-19,163**	**-15,743**
Adjustments			
Depreciation, amortisation and impairment	3	4,203	23,833
Financial income/expenses	13	14,629	1,545
Income tax	14	-16	86
Profit (loss) from sale of non-current assets	3	-1,092	-1,075
Adjustments of reserve of benefits for incapacity for work and other provisions	8	824	-94
Other adjustments		-769	182
Total adjustments		**17,780**	**24,476**
Change in receivables and prepayments related to operating activities	5	2,135	1,474
Change in inventories	4	559	495
Change in payables and prepayments related to operating activities	9, 20	-2,739	893
Interest received	13	482	1
Total cash flow from operating activities		**-948**	**11,595**
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets	3	-797	-2,198
Proceeds from sale of property, plant and equipment and intangible assets		38,666	6,674
Proceeds from sale of financial investments		119	0
Total cash flow from investing activities		**37,988**	**4,476**
Cash flow from financing activities			
Loans granted		-8,830	0
Repayments of loans granted		4,300	0
Loan repayments	7	0	-2,037
Lease principal repayments	7	-29,809	-6,933
Income tax paid		16	-86
Interest paid	13	-948	-1,583
Total cash flow from financing activities		**-35,271**	**-10,640**
Total cash flow		**1,770**	**5,431**
Cash and cash equivalents at the beginning of the period	2	21,482	16,056
Change in cash and cash equivalents		1,770	5,431
Effect of changes in exchange rates	13	-3	-5
Cash and cash equivalents at the end of the period	**2**	**23,249**	**21,482**

The cash flow presented in the table includes both continuing and discontinued operations.

The Notes presented on pages 25-60 form inseparable parts of the Annual Financial Statements.

Notes to Consolidated Annual Financial Statements

General information

AS Operail is a company founded on 14 January 2009, with the registered address of Metalli 3, Tallinn. The main areas of activity of the Group are the organisation of rail transport and the rental, repair and maintenance of railway rolling stock. As of June 2017, AS Operail Group included an Estonian subsidiary of 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 included 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.

On 14.02.2023, Operail Finland Oy was sold to a foreign investor.

The Management Board signed the financial statements for the financial year that ended on 31 December 2023 on 19 April 2024. According to the Commercial Code, an annual report prepared by the Management Board and approved by the Supervisory Board is approved at 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 2023 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 have been prepared in euros, rounded to thousands, which is the Group’s accounting and presentation currency.

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 1 January 2023, do have a material impact on the Group.

Standards issued but not yet effective and not early adopted

The next new and revised standards will apply to reporting periods beginning after 1 January 2024 and early adoption is allowed. The Group has not prematurely adopted any of those new and revised standards and in its opinion, these standards will upon entering into force have no significant effect on the Group’s consolidated financial statements.

Amendments to IAS 1: “Classification of Liabilities as Current or Non-current”

Effective for annual periods beginning on or after 1 January 2024.

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 of whether they will subsequently exercise the right to defer settlement do not affect the 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.

- "Non-current Liabilities with Covenants" (Amendments to IAS 1);
- "Supplier Finance Arrangements" (Amendments to IAS 7 and IFRS 7);
- "Lease Liability in a Sale and Leaseback" (Amendments to IFRS 16);
- "Lack of Exchangeability" (Amendments to IAS 21)

Note 1.2. Changes in the presentation of information

In 2023, Operail Leasing Finland Oy was classified as a discontinued area of activity. The financial indicators of the reference period of the given report have been adjusted accordingly. The changes have been recognised retrospectively in the reference period.

Consolidated Statement of Comprehensive Income

in thousands of euros	**2022 Statement of Income in 2023 Annual Report**	**2022 Statement of Income in 2022 Annual Report**	**difference**
CONTINUING OPERATIONS			
Revenue from client contracts	36,852	38,479	-1,627
Other operating revenues	934	1,440	-506
Total operating charges	**37,786**	**39,919**	**-2,133**
Goods, raw materials and services	22,844	22,890	46
Other operating expenses	3,187	3,246	59
Labour costs	15,042	15,042	0
Depreciation and impairment of non-current assets	6,398	7,699	1,301
Other operating charges	100	101	1
Total operating charges	**47,571**	**48,978**	**1,407**
OPERATING PROFIT (LOSS)	**-9,785**	**-9,060**	**-726**
Financial income and expenses	-288	-665	377
PROFIT/LOSS BEFORE INCOME TAX	**-10,073**	**-9,725**	**-349**
Income tax	0	-86	86

LOSS FOR FINANCIAL YEAR FROM CONTINUING OPERATIONS	**-10,073**	**-9,811**	**-263**
Loss for the financial year from discontinued operations	-5,670	-5,933	263
TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR	**-15,743**	**-15,743**	**0**

Note 1.3. Significant accounting estimates

The preparation of consolidated financial statements in accordance with the International Financial Reporting Standards requires the management to develop assumptions, provide evaluations and make decisions that influence the accounting principles applied as well as the assets and liabilities and income and expenses recognised. The assessments and the related assumptions are based on historical experience and various other facts that are relevant and are based on circumstances that shape the principles for the evaluation of assets and liabilities not directly derived from other sources. The actual results may differ from evaluations.

Evaluations and the underlying assumptions are periodically reviewed. The impact arising from the review of accounting evaluations is recognised in the period of the change in the evaluations if it only affects the given period, or both in the given periods and future periods (if the change affects both the current period and future periods).

The management's most significant evaluations that may have an impact on financial statements have been described below:

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

The management has assessed the useful life of property, plant and equipment. The assessment was based on historical experience and took into account the intensity and future prospects of the use of assets. 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 330 thousand euros smaller and, if the useful life were 10% shorter, the depreciation would be 404 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 the 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 of 31.12.2023 is 27,099 thousand euros (31.12.2022: 48,599 thousand euros). In 2023, intangible assets were written down by 254 thousand euros (2022: euros). In 2023, property, plant and equipment were not written down (2022: 13,256 thousand euros).

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 decided to initiate the sales process of 5 TEM TMH locomotives. 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.

The fair value was determined based on offers of alternative locomotives. The fair value of non-current assets held for sale as of 31.12.2023 is 6 million euros (the carrying amount is 6 million euros). The fair value of non-current assets held for sale as of 31.12.2022 was 72 million euros (the carrying amount was 82 million euros). A 1% decrease in fair value would mean an additional write-down in the amount of 0.06 million euros.

Note 1.4. 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 in foreign currency are recognised based on the exchange rates of the European Central Bank officially applicable on the date of the transaction. Monetary assets and liabilities recorded in a foreign currency as of 31 December 2023 have been recalculated into euros based on the exchange rates of the European Central Bank officially applicable on the balance sheet date. Gains and losses from foreign currency transactions have been recognised in the comprehensive income statement as income and expenses of the period.

Note 1.5. Property, plant and equipment and right-of-use assets

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

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

Property, plant and equipment have been divided into the following groups:

- Land, buildings and facilities – land, buildings, facilities, railroad
- Machinery and equipment – rolling stock, cars, computer equipment, equipment
- Other fittings and furnishings– tools, office appliances, furniture
- Buildings under construction

PPE components with different useful lives are initially recorded 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.

Expenses related to improvements of PPE, which can be reliably measured and which contribute to the generation of revenue in future periods, are capitalised. The expenses related to improvements are added to the acquisition cost or recognised as separate asset items. The useful life of the asset is changed, if necessary. 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 facilities	
Buildings	15-50
Railroad	10-50
Facilities	5-40
Machinery and equipment	
Machinery and equipment	3-40
Cars	4-12
Other fittings and furnishings	
Office and computer equipment, fittings and tools	3-20

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

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

Note 1.6. 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 lowest 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 an asset, but not above 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 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 1.7. Inventories

Inventories are initially recorded at acquisition cost, which consists of all the expenses directly related to the purchase as well as other direct expenditures without which the inventories would not be in their current location and condition. Inventories are accounted for using the FIFO method. The net realisable value is the estimated selling price of the product in the ordinary course of business less the estimated costs necessary to make the product saleable and complete the sale.

Note 1.8. Cash and cash equivalents

Settlement account balances and financial resources deposited as term deposits are recognised as cash and cash equivalents under cash on the balance sheet and in the statement of cash flows.

Note 1.9. 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 recognised at adjusted acquisition cost.

The classification depends on the Group's business model in the management of financial assets and the contractual terms and conditions of cash flows.

Initial recording and discontinuance of recognition

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. The recognition of financial assets is discontinued when all the rights to the cash flows arising from the financial asset end or are transferred and the Group transfers essentially all the risks and benefits.

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 recognition 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 recognised 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.

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 based on a contract or other source document, which will be paid in the next period.

Note 1.10. 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 based on several 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 of value 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 or 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 likely that the asset’s recoverable amount has meanwhile increased. Reversals of write-downs to recoverable amounts 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.

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, considering normal depreciation or amortisation.

Note 1.11. 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 goods or provides services 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 1.12. 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 1.13. 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.

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 can 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 the 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 based on the tax rates effective on the reporting date to taxable temporary differences in the period in which they are expected to reverse.

Note 1.14. 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 the 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 specific period of time for a fee.

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.

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 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.

(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 that have been 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.

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 1.15. Provisions and contingent liabilities

Liabilities assumed during the reporting period or in previous periods, which have a legal or contractual basis that 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 based on 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 is obliged to pay benefits for incapacity for work to persons who have lost their capacity for work through the fault of the Group, over the remaining lifetime of the persons concerned. The provision for relevant benefits is calculated based on the number of entitled persons, the period over which the benefits are expected to be paid, and the amounts of the benefits (Note 8).

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

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

Note 1.16. 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 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 1.17. 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. The financial indicators of the subsidiaries are consolidated on a line basis in the consolidated financial statements. 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 comply 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.

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.

Note 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.

in thousands of euros	**31.12.2023**	**31.12.2022**
Variable-rate financial liabilities		
Continuing operations	15,174	15,684
Discontinued operations	0	45,622
Total	**15,174**	**61,306**

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).

in thousands of euros	**31.12.2023**	**31.12.2022**
Increase by 100 basis points	-141	-533
Decrease by 100 basis points	141	533

The table shows the interest rate risk on loans as of 31.12.2023 for interest-bearing liabilities.

The purpose of interest risk management is to reduce interest expenses while 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:

in thousands of euros	**31.12.2023**			**31.12.2022**	
	CHF	USD	GBP	CHF	USD
Receivables	22	0	0	0	0
Payables	-65	-1	-15	-92	-3
Net positions	**-43**	**-1**	**-15**	**-92**	**-3**

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.

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

in thousands of euros	**Note**	**31.12.2023**	**31.12.2022**
Cash and cash equivalents**		23,249	21,482
Receivables*	5	6,799	3,856
Total		**30,048**	**25,337**

* 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 31.12.2023, the Group's credit risk amounted to 30,048 thousand euros (31.12.2022: 25,337 thousand euros).

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

(by payment term):

in thousands of euros	**31.12.2023**	**31.12.2022**
not yet due	1,746	3,302
overdue 1-30 days	260	338
overdue 31-180 days	70	187
overdue 181-365 days	0	30
overdue over 1 year	21	0
Total (Note 5)	**2,099**	**3,856**

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 of 31.12.2023, the outstanding balance of doubtful receivables amounts to 418 thousand euros (2022: 493 thousand euros).

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 2023 and 31 December 2022. 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.

Credit quality of current financial assets by ratings*

in thousands of euros	**31.12.2023**	**31.12.2022**
A3	383	6,797
Aa3	278	5,721
Baa1	21,571	8,963
Non-rated	6,799	3,856
Total	**29,031**	**25,337**

* 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 31.12.2023):

in thousands of euros		**31.12.2023**				
	Note	**Carrying amount**	**Contractual cash flows**	**Up to 1 year**	**2-5 years**	**Over 5 years**
Lease liabilities	7	10,901	12,686	1,286	11,398	2
Trade payables	9	990	990	990	0	0
Other payables*	9	298	298	298	0	0
Total		**12,189**	**13,974**	**2,574**	**11,398**	**2**

in thousands of euros		**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	7	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**

* 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 Climate).

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%.

Equity ratio of the Group:

in thousands of euros	**Note**	**31.12.2023**	**31.12.2022**
Cash and cash equivalents (minus)	2, 5	23,249	21,482
Borrowings	7	10,901	32,464
Cash and cash equivalents classified in assets held for sale	20	0	508
Borrowings related to assets held for sale	20	4,294	51,843
Lease liability reclassified as other liabilities		14,324	0
Net debt**		**6,270**	**62,317**
Equity		33,340	52,503
Operating profit before depreciation (EBITDA)*		-347	9,720
Total assets		67,169	153,155
Net debt/operating profit before depreciation		-18.1	6.4
Equity/Assets		50%	34%

*Total continued 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 December 2013 and 31 December 2022, the financing terms have been entered into in the recent past. 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.

in thousands of euros	**Land, buildings and structures**	**Machinery and equipment**	**Other fittings, fixtures and equipment**	**Construction in progress**	**Intangible assets**	**Total**
31.12.2021						
Acquisition cost	8,986	102,881	753	11,263	616	124,500
Accumulated depreciation	-6,307	-47,648	-583	0	-164	-54,702
Carrying amount	**2,679**	**55,233**	**170**	**11,263**	**452**	**69,798**
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	8,911	47,470	725	3,788	565	61,459
Accumulated depreciation	-7,431	-33,147	-650	0	-251	-41,479
Carrying amount	**1,480**	**14,323**	**75**	**3,788**	**314**	**19,980**

in thousands of euros	Land, buildings and structures	Machinery and equipment	Other fittings, fixtures and equipment	Construction in progress	Intangible assets	Total
Changes in period	**-1,200**	**-40,909**	**-95**	**-7,475**	**-138**	**-49,818**
31.12.2022						
Acquisition cost	8,911	47,470	725	3,788	565	61,459
Accumulated depreciation	-7,431	-33,147	-650	0	-251	-41,479
Carrying amount	**1,480**	**14,323**	**75**	**3,788**	**314**	**19,980**
Changes during 2023						
Acquisition	13	734	5	5	39	797
Reclassification from construction in progress at acquisition cost	0	3,747	0	-3,747	0	0
Reclassification from right-of-use assets at acquisition cost	0	4,674	0	0	0	4,674
Sale and write-off at acquisition cost	-75	-9,719	-48	-40	-37	-9,919
Reclassification to non-current assets held for sale	0	-508	0	0	0	-508
Depreciation						
Depreciation	-123	-2,450	-54	0	-99	-2,726
Write-down of other assets	0	0	0	0	-254	-254
Depreciation of reclassified right-of-use assets	0	-1,549	0	0	0	-1,549
Depreciation of non-current assets sold and written off	57	9,067	46	0	37	9,207
Reclassification to depreciation of non-current assets held for sale	0	131	0	0	0	131
Changes in period	**-128**	**4,127**	**-51**	**-3,782**	**-314**	**-146**
31.12.2023						
Acquisition cost	8,849	46,399	682	6	567	56,503
Accumulated depreciation	-7,498	-27,948	-658	0	-567	-36,670
Carrying amount	**1,352**	**18,451**	**24**	**6**	**0**	**19,833**

Improvements to non-current assets were capitalised in 2023 in the amount of 1,656 thousand euros (2022: 3,633 thousand euros), of which 3 thousand euros (2022: 18 thousand euros) were added to the group ‘Buildings’ and 1,651 thousand euros (2022: 3,586 thousand euros) to the group ‘Machinery and equipment’ and 2 thousand euros (2022: 28 thousand euros) to the group ‘Intangible assets’.

As of 31.12.2023, the Group had fully amortised non-current assets in use at acquisition cost of 16,473 thousand euros (2022: 23,599 thousand euros). As at 31.12.2023, as well as 31.12.2022, no assets of the Group were pledged.

In 2023, a prepayment was made for non-current assets in the amount of 0 euros (2022: 0 euros) and was reclassified from non-current assets in progress in the amount of 3,747 thousand euros (2022: 6,840 thousand euros). The balance of the prepayment for non-current assets as at 31.12.2023 amounts to 0 euros (31.12.2022: 0 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, IFRS 13 regulates the fair value measurement before reclassification. As a result of the measurement, non-current assets were not written down (31.12.2022: 13,256 thousand euros). As the Group does not earn a net profit and the intangible assets cannot be sold, it was decided to write the intangible assets down to 0 level. In 2023, intangible assets were written down in AS Operail in the amount of 222 thousand euros and in Operail Repairs OÜ in the amount of 32 thousand euros.

Right-of-use assets

in thousands of euros	**Land, buildings and structures**	**Machinery and equipment**	**Total**
31.12.2021			
Acquisition cost	531	105,965	106,496
Accumulated depreciation	-299	-27,966	-28,265
Carrying amount	**232**	**77,999**	**78,231**
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
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	531	44,898	45,429
Accumulated depreciation	-473	-16,337	-16,810
Carrying amount	**59**	**28,561**	**28,620**

in thousands of euros	**Land, buildings, and structures**	**Machinery and equipment**	**Total**
31.12.2022			
Acquisition cost	531	44,898	45,429
Accumulated depreciation	-473	-16,337	-16,810
Carrying amount	**59**	**28,561**	**28,620**
Changes during 2023			
Acquisition	355	52	406
Reclassifications to property, plant and equipment at acquisition cost	0	-4,674	-4,674
Sale and write-off at acquisition cost	0	-14,431	-14,431
Reclassification to non-current assets held for sale	0	-9,625	-9,625
Depreciation			
Depreciation	-136	-1,086	-1,222
Reclassifications to property, plant and equipment at depreciation	0	1,549	1,549
Depreciation of non-current assets sold and written off	0	2,919	2,919
Reclassification to depreciation of non-current assets held for sale	0	3,724	3,724
Changes in period	**218**	**-21,572**	**-21,354**
31.12.2023			
Acquisition cost	886	16,219	17,105
Accumulated depreciation	-609	-9,231	-9,840
Carrying amount	**277**	**6,989**	**7,266**

Note 4. Inventories

in thousands of euros	**31.12.2023**	**31.12.2022**
Spare parts for rolling stock	2,595	2,786
Fuel and lubricants	501	732
Other inventories	382	519
Total inventories	**3,478**	**4,037**

In the reporting year, inventories were written off in the amount of 73 thousand euros (2022: 1 thousand euros), the need for write-offs was identified during stock-taking. No write-downs have been made. No write-downs of previous periods have been reversed in the reporting or reference period.

Note 5. Receivables and prepayments

in thousands of euros	Note	31.12.2023	31.12.2022
Accounts receivable	2	2,045	4,170
Doubtful accounts		-418	-493
Total accounts receivable	**2**	**1,627**	**3,678**
Other short-term receivables		471	178
Prepaid taxes		18	31
Prepaid expenses		249	299
Short-term loans granted		4,700	0
Total other receivables		**5,438**	**508**
Total receivables and prepayments		**7,065**	**4,186**

A loan with an annual interest rate of 10% has been recognised as short-term loans granted. The term of the loan is 31 May 2024.

Note 6. Equity

Share capital

in thousands of euros	31.12.2023	31.12.2022
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	0
Dividend per share (EUR/share)	0.00	0.00

Each share entitles its holder to participate in the General Meeting of shareholders of the Group and gives one vote in making decisions. All shares 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 31.12.2023

in thousands of euros	**Balance on 31.12.2023**	**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	10,901	2	10,143	756	2024-2029	EUR	1.24%
Total borrowings	**10,901**	**2**	**10,143**	**756**			

in thousands of euros	**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**			

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

As at the balance sheet date, the overdraft limit agreement has been terminated. For further information on lease liabilities and borrowings, see Notes 2.2, 2.4, 2.5 and 15, 16.

In 2023, the comprehensive income statement included lease interest expenses in the amount of 702 thousand euros (2022: 242 thousand euros, note 13, 15) and the interest expenses of other borrowings in the amount of 6 thousand euros (2022: 11 thousand euros).

in thousands of euros	**Cash and cash equivalents**	**Borrowings**	**Lease liabilities**	**Total**
Net debt on 31.12.2021	**16,056**	**-29,537**	**-63,657**	**-77,137**
Cash flows	5,431	2,037	6,933	14,401
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	51,843
Net debt on 31.12.2022	**21,482**	**0**	**-32,464**	**-10,981**
Cash flows	1,771	0	17,458	19,229
Additions	0	0	-437	-437
Effect of changes in exchange rates	-3	0	0	-3
Reclassification to liabilities related to assets held for sale	0	0	4,542	4,542
Net debt on 31.12.2023	**23,250**	**0**	**-10,901**	**12,350**

Note 8. Provisions

in thousands of euros	**Provisions**
31.12.2021	**580**
Adjustment	427
Use	-32
31.12.2022	**975**
Short-term provision	527
Long-term provision	448
Total provision	**975**
31.12.2022	**975**
Adjustment	1,311
Use	-487
31.12.2023	**1,799**
Short-term provision	550
Long-term provision	1,249
Total provision	**1,799**

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

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

The payout period has been determined on the basis of Statistics Estonia's data on life expectancy by age. The Group adjusted the accounting principles of the provision for benefits for incapacity for work and changed the discount rate from 3.58% to 5.46%, 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 773 thousand euros (2022: 452 thousand euros).

In addition, a provision has been formed for historic costs in the amount of 405 thousand euros (2022: 0 euros).

Note 9. Trade payables, contract liabilities and other payables

in thousands of euros	**Note**	**31.12.2023**	**31.12.2022**
Accounts payable to suppliers	2.4	990	2,619
Lease liability reclassified as other liabilities		14,324	0
Other short-term payables	2.4	177	177
Total		**15,491**	**2,796**
Taxes payable		392	487
Accruals:			
- payables to employees		688	1,031
- social tax accruals		177	246
- other accruals	2.4	88	612
Total		**1,344**	**2,376**
Grand total		**16,835**	**5,172**

Other accruals in the amount of 88 thousand euros (31.12.2022: 612 thousand euros) includes collaterals from customers in the amount of 33 thousand euros (31.12.2022: 239 thousand euros).

As of 31.12.2023, 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 2024.

Contract liabilities

in thousands of euros	**Note**	**31.12.2023**	**31.12.2022**
Liabilities related to contracts of sale of assets	20	0	7,796
Liabilities related to leases of assets		33	42
Total prepayments received		**33**	**7,838**

As of 31.12.2022, 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.

Note 10. Revenue from client contracts and other operating revenues

Revenue from client contracts by geographical regions

in thousands of euros	**2023**	**2022**
Total sales to EU Member States	**20,695**	**36,686**
Estonia	18,723	35,447
Finland	822	163
Denmark	453	541
Germany	160	258
Lithuania	410	190
Latvia	52	71
Other countries	74	15
Sales to outside EU Member States	21	166
Total revenue from client contracts	**20,716**	**36,852**

Geographical region indicates the location of the client.

Revenue from client contracts by fields of activity

in thousands of euros	**2023**	**2022**
Transport services	15,713	28,428
Supporting and auxiliary transport activities	1,829	5,854
Rental and lease services	1,693	1,570
Maintenance and repair of rolling stock	1,072	763
Management and operating services	134	0
Other	274	236
Total revenue from client contracts	**20,716**	**36,852**

Other includes the use of stabling tracks, security services, and stock management services.

Other income

	in thousands of euros	**2023**	**2022**
	Contractual penalties, default interest and compensation	80	7
	Sales of scrap metal	1,416	587
Other income		46	11
	Total other income	**2,416**	**934**

Note 11. Operating charges

in thousands of euros	**2023**	**2022**
Use of infrastructure	4,853	11,334
Fuel and energy	3,132	7,649
Services related to rail transport	765	2,100
Use of freight wagons and containers	645	790
Rolling stock repair and maintenance	188	109
Raw materials	704	579
Other	235	283
Total goods, raw materials and services	**10,522**	**22,844**
Consultation and legal services	289	495
Various office expenses	550	563
Other expenses	371	419
Personnel-related expenses	413	325
Insurance service	116	141
Rent and lease	249	308
Temporary agency work	0	38
Energy	109	259
Audit and accounting services	144	177
Transportation expenses	181	211
Marketing and advertising	83	173
Doubtful receivables	1	79
Total operating expenses	**2,507**	**3,187**

Note 12. Labour costs

in thousands of euros	**2023**	**2022**
Salaries and bonuses	8,233	11,530
Social taxes	2,630	3,690
Capitalisation of labour costs	-113	-178
Total labour costs	**10,750**	**15,042**
Number of employees		
Number of employees at the beginning of the period	368	542
Number of employees at the end of the period	264	368
Average number of employees in full-time equivalents	269	452
Persons working under the contract of a supervisory or management body member	8	8
Persons working under employment contract	264	360
Total	**272**	**368**

The table does not include employees in discontinued operations in 2022. The number of employees in discontinued operations as at 31. December 2023 was 0 (2022: 51).

Note 13. Financial income and expenses

in thousands of euros	Note	2023	2022
Other financial income		734	43
Interest expenses on leases	7, 15	-702	-242
Other interest expenses		-24	-84
Total interest expenses		**-727**	**-326**
Financial income and expenses related to shares of subsidiaries		289	0
Gains/losses on changes in exchange rates		-3	-5
Total financial income and expenses		**294**	**-288**

Financial income and expenses related to shares of subsidiaries result from the sales of the shares of Operail Finland Oy.

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% (2022: 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 31.12.2023 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.

The Group's undistributed loss as at 31.12.2023 amounts to -8,785 thousand euros (in 31.12.2021, retained earnings amounted to 10,379 thousand euros), there is no capability to pay dividends. The maximum possible amount of income tax liability associated with the payment of all retained earnings as dividends as of 31 December 2022 was 2,254 thousand euros. The Group could pay 8,124 thousand euros as net dividends as at the end of 2022.

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.

Group as lessee		
in thousands of euros	**31.12.2023**	**31.12.2022**
Right-of-use assets		
Land, buildings and structures	277	59
Machinery and equipment	6,989	28,561
Total	**7,266**	**28,620**
Lease liabilities		
Current	756	2,354
Non-current	10,145	30,110
Total	**10,901**	**32,464**

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

in thousands of euros	**Note**	**2023**	**2022**
Interest expenses (recognised under financial expenses)	7, 13	702	242
Expenditure on short-term leases (recognised under operating expenses)		1,134	1,260
Depreciation on buildings	3	136	174
Depreciation on means of transport	3	1,086	4,459
Total cash outflows related to leases		-26,676	-6,933

Operating leases – Group as lessor

In 2023, the Group earned revenue from the lease of assets under operating leases (rolling stock) in the amount of 1,693 thousand euros (2022: 1,570 thousand euros, Note 10).

Lease revenue from non-cancellable leases in future periods:

	31.12.2023	**31.12.2022**
Year 1	1,881	1,237
Years 2-5	0	932
Over 5 years	0	0
Total	**1,881**	**2,169**

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

in thousands of euros	**31.12.2023**	**31.12.2022**
Assets given on lease		
Acquisition cost	13,848	3,456
Accumulated depreciation	-2,041	-494
Residual value	**11,807**	**2,962**

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.-31.12.2023. 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.

Balances with related parties by group

in thousands of euros	**31.12.2023**		**31.12.2022**	
	Receivables	Payables	Receivables	Payables
Companies related to the Government of the Republic of Estonia	317	603	404	1,313
Total	**317**	**603**	**404**	**1,313**

in thousands of euros	**2023**		**2022**	
	Sales	Purchases	Sales	Purchases
Companies related to the Government of the Republic of Estonia	1,595	6,184	1,726	13,136
Companies related to executive management and senior management	0	0	0	4
Total	**1,595**	**6,184**	**1,726**	**13,139**

Purchase and sale transactions with related parties in 2023 and 2022 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 (2022: 0).

Remuneration and other significant benefits calculated for executive and senior management

in thousands of euros	**2023**	**2022**
Remuneration calculated for executive and senior management	340	377
Total	**340**	**377**

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

Note 18. Additional information on parent company

Statement of financial position of the parent company

in thousands of euros	**31.12.2023**	**31.12.2022**
ASSETS		
Non-current assets		
Property, plant and equipment	10,651	15,070
Right-of-use assets	7,162	13,694
Intangible assets	0	314
Long-term financial investments	25,947	32,247
Total non-current assets	**43,759**	**61,324**
Current assets		
Inventories	2,220	2,686
Trade receivables	764	2,111
Other receivables	5,494	1,745
Cash and cash equivalents	3,579	2,211
Assets held for sale	6,277	0
Total current assets	**18,334**	**8,753**
TOTAL ASSETS	**62,093**	**70,077**
EQUITY AND LIABILITIES		
Equity		
Share capital	24,476	24,476
Share premium	17,256	17,256
Statutory reserve capital	389	389
Other reserves	1	1
Retained earnings	800	5,540
Total equity	**42,922**	**47,662**
Non-current liabilities		
Trade and other non-current payables	0	177
Lease liabilities	10,039	14,989
Provisions	550	448
Total non-current liabilities	**10,589**	**15,614**
Current liabilities		
Trade and other current payables	2,913	5,182
Lease liabilities	728	1,129
Provisions	647	490
Liabilities related to assets held for sale	4,294	0
Total current liabilities	**8,582**	**6,802**
TOTAL LIABILITIES	**19,171**	**22,416**
TOTAL EQUITY AND LIABILITIES	**62,093**	**70,077**

Statement of comprehensive income of the parent company

in thousands of euros	**2023**	**2022**
OPERATING REVENUES		
Revenue from client contracts	19,983	37,802
Other income	1,245	617
Total operating revenues	**21,228**	**38,418**
OPERATING CHARGES		
Goods, raw materials and services	-10,506	-24,140
Operating expenses	-2,747	-2,886
Labour costs	-8,949	-13,265
Depreciation, amortisation and impairment	-3,289	-4,773
Other expenses	-151	-97
Total operating charges	**-25,642**	**-45,162**
OPERATING PROFIT/LOSS	**-4,414**	**-6,744**
Profit/loss from subsidiaries	0	-14,114
Financial income and expenses	-325	444
PROFIT/LOSS FOR FINANCIAL YEAR	**-4,740**	**-20,414**
TOTAL COMPREHENSIVE PROFIT/LOSS FOR FINANCIAL YEAR	**-4,740**	**-20,414**

Statement of changes in equity of the parent company

in thousands of euros	**Note**	**Share capital**	**Share premium**	**Statutory reserve capital**	**Other reserves**	**Retained earnings**	**Total**
Balance on 31.12.2021	**6**	**24,476**	**17,256**	**389**	**1**	**25,954**	**68,076**
Profit 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**
Profit for reporting period		0	0	0	0	-4,740	-4,740
Balance on 31.12.2023	**6**	**24,476**	**17,256**	**389**	**1**	**800**	**42,922**

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

in thousands of euros	**2023**	**2022**
Unconsolidated equity of parent company	42,922	47,662
Book value of subsidiaries in parent company's unconsolidated balance sheet	-25,947	-32,247
Value of subsidiaries using equity method (plus)	16,364	37,088
Adjusted unconsolidated equity of parent company	**33,340**	**52,503**

Statement of cash flows

in thousands of euros	**2023**	**2022**
Cash flow from operating activities		
Net profit	**-4,740**	**-20,414**
Adjustments		
Depreciation, amortisation and impairment	3,289	4,773
Financial income/expenses and profit/loss from subsidiaries	325	13,670
Profit (loss) from sale of non-current assets	-929	-325
Adjustments of reserve of benefits for incapacity for work	258	-62
Other adjustments	413	627
Total adjustments	**3,357**	**18,684**
Change in receivables and prepayments related to operating activities	-482	954
Change in inventories	466	97
Change in payables and prepayments related to operating activities	-2,380	-2,461
Total cash flow from operating activities	**-3,779**	**-2,921**
Cash flow from investing activities		
Purchases of property, plant and equipment and intangible assets	-820	-1,780
Proceeds from sale of property, plant and equipment and intangible assets	1,247	521
Capital returned	6,300	4,300
Interest received	183	219
Total cash flow from investing activities	**6,910**	**3,260**
Cash flow from financing activities		
Lease principal repayments	-1,058	-1,596
Interest paid	-705	-251
Total cash flow from financing activities	**-1,762**	**-1,847**
Total cash flow	**1,369**	**-1,726**
Cash and cash equivalents at the beginning of the period	2,211	3,942
Change in cash and cash equivalents	1,369	-1,726
Effect of changes in exchange rates	-1	-4
Cash and cash equivalents at the end of the period	**3,579**	**2,212**

Note 19. Subsidiaries

Subsidiary	Country	Area of activity	Holding 31.12.2023	Holding 31.12.2022
Operail Holding OÜ	Estonia	Activity of head offices	100%	100%
AS Operail owns indirectly through Operail Holding OÜ 100% of:				
Operail Leasing AS	Estonia	Lease of railway rolling stock	0%	0%
Operail Repairs OÜ	Estonia	Rolling stock maintenance, repairs and modernisation	0%	0%
Operail Leasing Finland Oy	Finland	Lease of railway rolling stock	0%	0%

Note 20. Assets held for sale and discontinued operations

In 2023, the wagon lease business Operail Leasing Finland Oy met all the conditions to be reclassified as discontinued operations (in 2022, AS Operail Leasing and Operail Finland Oy had been classified as discontinued operations).

Assets and liabilities held for sale

in thousands of euros	Note	31.12.2023	31.12.2022
ASSETS			
Non-current assets		6,277	72,305
Inventories		0	940
Other receivables		0	441
Trade receivables		0	657
Cash and cash equivalents		0	508
TOTAL ASSETS		**6,277**	**74,851**
LIABILITIES			
Trade and other current payables	9	0	2,183
Borrowings	2, 7	0	27,500
Lease liabilities	2, 7, 15	4,294	24,343
TOTAL LIABILITIES		**4,294**	**54,026**

The sale of the Finnish freight transport business has been completed on 14.02.2023 in accordance with the owner’s expectations. 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, recorded in 2022.

As at 31.12.2022, AS Operail Leasing still had to complete the sale of 1,433 wagons, the sale was completed at the beginning of 2023.

As at the end of 2023, 5 locomotives belonging to AS Operail are recognised as non-current assets held for sale.

REVENUES AND EXPENSES OF DISCONTINUED OPERATIONS		
in thousands of euros	**2023**	**2022**
Revenue from client contracts	2,997	17,042
Other income	445	6,077
Total operating revenues	**3,442**	**23,118**
Goods, raw materials and services	1,015	5,216
Operating expenses	805	1,475
Labour costs	265	3,240
Other expenses	587	79
Operating charges	**2,671**	**10,011**
Revaluation of assets held for sale	0	-10,561
Depreciation of assets held for sale before classification to assets held for sale	-316	-6,874
Financial income and expenses	-14,923	-1,257
LOSS BEFORE INCOME TAX	**-14,468**	**-5,584**
Income tax	-16	86
TOTAL LOSS FOR FINANCIAL YEAR FROM DISCONTINUED OPERATIONS	**-14,453**	**-5,670**

The assets of Operail Leasing Finland, which consist of semi-wagons for chipped wood, are according to the sole shareholder's expectations included in non-strategic assets. As at the balance sheet date and the reporting date, the wagons have fallen under a financial sanction, which has a significant effect on their realisation value. In the management's assessment, the wagons had no realisation value as at the balance sheet date and were therefore recognised at 0 value on the balance sheet (write-down 14,936 thousand euros).

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

The sole shareholder has set an expectation of privatisation for Operail. As at the time of approving financial statements, the management is actively engaged in preparing for privatisation, with legal and financial consultants involved.

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 and Belarus 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, 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.

Proposal for covering loss

The Management Board of AS Operail proposes to the General Meeting of shareholders to cover the net loss of -19,163 thousand euros for 2023 on the account of retained earnings of the previous periods.

Undistributed loss after covering the net loss for 2023 is 8,785 thousand euros.

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Merle Kurvits
Member of Management Board

19.04.2024

Signatures of members of Management Board

The Consolidated Annual Financial Statements of AS Operail for the financial year that ended on 31.12.2023 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.

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Merle Kurvits
Member of Management Board

19.04.2024

OPERAIL