State joint stock company „Latvijas dzelzceļš"

Annual Report for 2020

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Translation note: This version of Annual Report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of Annual Report takes precedence over this translation.

MANAGEMENT REPORT

ON THE OPERATING ACTIVITY OF THE STATE JOINT STOCK COMPANY "LATVIJAS DZELZCEĻŠ" IN 2020

1. AN OVERVIEW OF THE STATE JOINT STOCK COMPANY "LATVIJAS DZELZCEĻŠ"

The state joint stock company "Latvijas dzelzceļš" (hereinafter referred to as *Latvijas dzelzceļš* or the *Company*) is one of the largest companies in Latvia, making a significant contribution to the national economy through its economic activity by ensuring the use of railway infrastructure for passenger and freight traffic.

The main task of the *Company* is to operate publicly usable railway infrastructure and provide safe, high-quality, and efficient railway services that serve the best interests of the Latvian State and its national economy. At 31 December 2020, the extended length of the rail network managed by *Latvijas dzelzceļš* as a public-use railway infrastructure operator was 3 158.1 km, including technologically integrated station and access roads and other infrastructure facilities.

The Company is the parent company of the *Latvijas dzelzceļš* group (hereinafter the *Group*). The Group consists of the parent company and seven subsidiaries (the parent company has a direct decisive influence on six companies, and in one – an indirect decisive influence), which together provide customers with versatile railway services.

Latvijas dzelzceļš provides the minimum required set of public railway access services and access to public railway infrastructure connecting the railway infrastructure to service stations, services, freight wagon handling, wagon maintenance and inspection services, electricity distribution and trading services, rental services, information technology services, electronic communications services, services of a principal, as well as other services laid down in Section 12^1, Paragraph one of the Railway Law.

SIA "LDZ CARGO" is engaged in providing local and international rail freight services, traction services, the use of freight wagons and the organization of international passenger services. SIA "LDZ infrastruktūra" is engaged in providing repair and rental services for track machinery, as well as track welding services. SIA "LDZ ritošā sastāva serviss" is engaged in providing repair services of locomotives and wagons, staffing, and upgrading of locomotives, rental of locomotives. SIA "LDZ apsardze" is engaged in providing physical and technical security services to the *Group's* companies, other companies, and individuals, as well as on the road guarding of freights. SIA "LDZ Loģistika" is engaged in providing freight forwarding and logistics services, as well as the acquisition of new flows of goods and the organization of rail freight transport between European and Asian countries. AS "LatRailNet" is engaged in carrying out the essential functions of the railway infrastructure operator. The company approves the fees for the minimum package of access services, as well as for the infrastructure that connects the infrastructure to the service areas, distributes the capacity of the railway infrastructure, and makes decisions on the scheduling of trains of a particular carrier. The subsidiary of SIA "LDZ ritošā sastāva serviss" – SIA "Rīgas Vagonbūves uzņēmums "Baltija"" was founded with a view to developing rail wagon construction in Latvia.

In June 2020, having assessed the performance of the *Group's* companies in terms of sustainable development and best governance practices, Sustainability Index experts repeatedly awarded Platinum rating to *Latvijas dzelzceļš*. SIA "LDZ CARGO" was also awarded the Platinum category. Other subsidiaries were awarded the following ratings: SIA "LDZ ritošā sastāva serviss" – the Gold category, SIA "LDZ apsardze" – the Silver category and SIA "LDZ Loģistika" – the Bronze category.

Since 2012, the *Company* has been part of the In-depth Cooperation Programme under the auspices of the Ministry of Finance, with the aim of promoting closer and more effective cooperation between taxpayers and the tax administration as well as reducing the administrative burden. *Latvijas dzelzceļš* as the Gold level member of the In-depth Cooperation Programme benefits from the statutory reliefs and advantages.

In 2020, the average number of people employed by the *Company* was 5 322. Compared to 2019, the number of employees fell by 1 023. This was related to the Management Board decision VL-2/2 "On measures to ensure the Company's continued business activity, fiscal equalisation and mass dismissal of employees" of 9 January 2020, the *Group's* Contingency Action Plan for 2020 (approved on 5 March 2020 under the decision No. 13/103 of the Management Board of VAS "Latvijas dzelzceļš"), as well as the expected reduction of costs in accordance with the requirements set out in the guidelines for the preparation of adjustments to the 2020 annual budget.

In 2020, the average number of people employed by the Group was 8 539. Compared to 2019, the number of employees declined by 1 616.

2. OPERATING PERFORMANCE

The main performance indicator of *Latvijas dzelzceļš* is the number of train-kilometres travelled, which is the basis for calculating the infrastructure charge and determining the infrastructure depreciation. In 2020, compared to 2019, the number of train-km decreased by 25.5%, i.e., in freight transport - by 41.7% and in passenger transport - by 2.7%.

In 2020, the public use infrastructure of *Latvijas dzelzceļš* was used to transport 24 113 thous. tons of cargo, carrying 4 994 thous. train-km, and 12 862 thous. passengers, running 5 969 thous. train-km (including SIA "Gulbenes-Alūksnes bānītis" – 48.5 thous. train-km, UAB "LTG Link" (until 20.07.2020 LG Keleiviams UAB – 3.3 thous. train-km).

In 2020, *Latvijas dzelzceļš* continued to focus on the priorities set in the last quarter of 2019, i.e., driving operational efficiencies by reviewing business, organizational and technological processes with the aim of increasing the efficiency of the *Group's* business activities and reducing costs, as well as ensuring the *Group's* competitiveness and sustainability in the future.

In 2020, the *Company* carried out the annual review of internal processes, changes in technological processes with a view to achieving reduced costs and improved efficiency. The *Company* also sees to the implementation of the Regulation No 01-02/16 "Procedure for monitoring the implementation of the financial balance of the operator of the railway infrastructure in public use" of the Ministry of Transport of 5 October 2020.

As a result of various economic and geopolitical processes, the trend of declining freight traffic that emerged in 2019 continued in 2020. The declining freight traffic was also negatively impacted by the situation caused by the Covid-19 pandemic and compliance with regulatory requirements to contain it.

In 2020, freight traffic amounted to 24 113 thousand tonnes, a decrease of 17 377 thousand tonnes or 41.9% compared to 2019, when 41 490 thousand tonnes were transported.

The largest share in freight transport is accounted for by import shipments, which account for 67.6% of total shipments. In 2020, their volume amounted to 16,305 thousand tonnes, which is a decrease of 50.5% compared to the corresponding period of the previous year.

The most significant share of transport (nearly half of all transport) consisted of transportation of oil and oil products (26.6%) and coal (16.8%). The share of fertilizer cargoes in the total volume of transport was 9.5%, that of wood and its products is 8.6%, and the share of fodder cargo was 8.5%. Ores are the most common cargo in the category "Other cargoes". In 2020, 672 thousand tonnes were transported, as well as minerals (during 2020, 542 thousand tonnes, up by 28.1% more than last year).

In 2020, the net turnover of the *Company* was EUR 156 536 thousand, down by EUR 26 744 thousand (14.6%) from 2019.

In 2020, the performance for the year was 0. To ensure its financial stability, *Latvijas dzelzceļš* received an advance payment of EUR 13 011 000 as the state public use railway infrastructure manager specified in the laws and regulations. This payment was used in full to cover losses at 31 December 2020. *Latvijas dzelzceļš* has the lacking part of the financing necessary to ensure the financial stability of EUR 9 503 295, which was recognised as income in 2020, according to the International Financial Reporting Standards guidelines, and will be requested after the approval of the *Company's* annual report.

Under Paragraph 5.2.2. of the Cabinet Order No. 588 *On the indicative railway infrastructure development plan for the years 2018 - 2022,* when an infrastructure operator has a financial deficit, financial balance must be established by using profits from other commercial activities of the infrastructure manager.

With the aim of stabilising the financial position of Latvijas dzelzceļš, on 20 March 2020, at the shareholder meetings of its dependent companies, it was decided to distribute dividends from the retained profits of the dependent companies for previous years, which resulted in additional income and increased the *Company's* cash flow by EUR 19 180 thousand.

At 31 December 2020, the *Company's* current assets exceeded its current liabilities by EUR 11 827 thousand. Current liabilities include deferred revenue of EUR 19 341 thousand, related to the investments of the European Union (EU) projects and State budget funds in railway public infrastructure and are gradually charged off to profit and loss, therefore the risk that financial assets will be required to cover these commitments, is low. The total liquidity ratio was 1.2, if deferred revenue related to investments in the public railway infrastructure of EU projects and State budget funds were excluded from current liabilities, it would be 1.5. At 31 December 2020 and at the beginning of 2021, none of the non-current loans had breaches of covenants.

The debt ratio in the balance sheet (total liabilities to total assets) has declined compared to 2019: at 31 December 2020, the ratio was 0.58 (previously – 0.62). In assessing the amount of liabilities, the main criterion is the level of financial risk. The risk depends on the sources and types of asset financing: as the share of borrowed capital in the liabilities of the balance sheet increases, so does the financial risk. The liabilities include deferred revenue related to investments of EU projects and State budget funds in railway public infrastructure and advance payments to ensure financial equilibrium; if deferred revenue from creditors is excluded from creditors, the liabilities to total assets in the balance sheet is 0.25. When assessing financial indicators, it should be taken into account that co-financing received from the European Community funds and the State budget for EU investment projects must be indicated under balance sheet liabilities as “deferred revenue” and written off as part of the depreciation charge for the current year of the created objects, which relate to the financial support received in the profit or loss under “Other operating income”, while the depreciation of the objects is reported under the “Cost of goods sold”.

Despite the decline in freight volumes, the *Company* has continued to ensure the quality of infrastructure and service provision, as well as the appropriate level of safety, and in 2020 the total amount of the capital expenditure by *Latvijas dzelzceļš* amounted to EUR 11 259 thousand, of which:

- EUR 10 521 thous. invested in restoration, including:
  - capital repairs of railway infrastructure of EUR 9 680 thous.;
  - upgrading of the existing IT systems of EUR 185 thous.;
  - technological equipment purchased for the repair and maintenance of tracks in the reporting period, as well as equipment for the further development of information systems and communication tools and other intangible assets of EUR 656 thous.;
- infrastructure development of EUR 738 thous. including:
  - upgrading of EUR 313 thous.;
  - launching of innovative technologies of EUR 340 thous.;
  - other development of EUR 85 thous..

3. OBJECTIVES AND FUTURE DEVELOPMENT

In 2020, the Management Board and the broader Latvijas dzelzceļš management team actively worked to resolve existing financial circumstances, optimise costs, and drive the overall efficiencies of the *Company*, as well as paid special attention to the issues of the future development of VAS “Latvijas dzelzceļš” – the development of a new business model and planning of further development of the railway passenger infrastructure.

Under decision No. VL-38/237 of the Management Board of the *Company* of 12 June 2020, the future business lines were approved to include the railway infrastructure, freight transport and rolling stock maintenance and ancillary services development business, which were taken into consideration by the Council under decision No. PA 1.2/16-1 of 17 June 2020.

The new business model of *Latvijas dzelzceļš* is based on the assets available to the *Company,* i.e., top quality infrastructure, competent team, and long-term experience, while significantly expanding the *Group's* already existing areas of activity, developing the expedition activity, including marine forwarding, road transport forwarding, warehousing services, additional post-handling services, etc.

The future priorities of the Freight Transport and Logistics Division are cargoes to and from Belarus, Ukraine, special cargoes, close cooperation with port authorities and port terminals, and a unified logistics offer.

To increase the efficiency and productivity of the *Company's* operations, emphasis will continue to be placed on thoughtful use of the human and material resource base through cost reduction. As a result, the *Group's* technological processes, functions to be performed and management capabilities will continue to be identified.

Upon completion of work on the *Group's* new business model and in accordance with the resolution No. A 1.1/2-1 of the meeting of shareholders of 30 April 2020, *Latvijas dzelzceļš* has developed the *Company's* medium-term operational strategy until 2025, of which the Ministry of Transport and the Cross-Sectoral Coordination Centre have issued their opinions.

On 18 January 2021, under the Board decision VL-3/10 of *Latvijas dzelzceļš* accepted the refined drafts of the strategy and the action plan, considering the recommendations of the Ministry of Transport and the Cross-Sectoral Coordination Centre. The *Company's* medium-term operational strategy is to be approved after the general strategic objective of the *Company* is laid down by the Cabinet.

Considering the development of *Latvijas dzelzceļš* and its future competitiveness, along with regular capital expenditure in maintaining the level of quality and safety of the infrastructure within the limits of financial possibilities, work will continue on the implementation of the project “Upgrading of the Riga Railway Junction section Sarkandaugava – Mangali – Ziemelblazma”, co – financed by the Cohesion Fund, for the construction of which the contract was concluded in 2019.

At the same time, there have been several developments related to the implementation of new projects with the support of the Cohesion Fund.

At the Cabinet meeting held on 19 May 2020, the Information Report on the redistributions of the European Union structural funds and the Cohesion Fund and solutions aimed at minimising the consequences of Covid-19 was reviewed, deciding that the proposal to reallocate Cohesion Fund financing to alternative transport projects would be supported in the light of the discontinued rail infrastructure projects. As for the projects of the railway sector, through the necessary amendments to the Cabinet Regulation, the Ministry of Transport should address the issue of co-financing of the State budget of 19.3 million EUR (15% of the total eligible costs of the projects) for the budgeted alternative projects in the railway sector. At present, work on the preparation of documentation for the projects “Modernisation of the railway passenger infrastructure”, “Modernisation of railway infrastructure for increasing speed of trains” and “Building of fencing and pedestrian crossings in railway infrastructure facilities” is underway.

Under the project “Modernisation of railway passenger infrastructure” procurement for the construction in four railway lines has been announced, i.e., Riga-Jelgava, Riga-Tukums II line, Riga-Krustpils and Zemitani-Skulte line, where a total of 48 railway passenger stations will be upgraded, including the construction of elevated platforms. On 5 January 2021, the tenders submitted by seven bidders were opened on parts 1-5 of the procurement (construction). An assessment of the tenders is expected to be completed in the first quarter of 2021, considering the time to receive answers to the clarifying questions about the qualifications and tenders of applicants. A complaint has been received for Part 6 of the procurement (the introduction of notification and video surveillance systems) and the procurement procedure was terminated. The procurement “Implementation of the common notification and video surveillance systems” was announced repeatedly at the end of February.

Ongoing work is being carried out in the implementation of the Action Plan for the reduction of noise on railway lines with a traffic intensity of more than 30 000 trains per year for the period from 2019 to 2023, which was developed in accordance with the Law *On Environmental Pollution* and the requirements of Cabinet Regulation No. 16 *Noise Assessment and Management Procedure* of 7 January 2014.

For the *Company* to continue its business activity:

- Under the Cabinet Order No. 391 *On the allocation of funds from the State budget programme "Contingency Fund"* of 15 July 2020, the Ministry of Transport was allocated funding of EUR 27 236 226 by the Cabinet, of which EUR 14 225 226 was allocated to ensure the arrangements for compensating the statutory charges on the state-owned railway infrastructure for passenger transport services provided under a public service contract, and EUR 13 011 000 was allocated to make an advance payment to ensure the financial stability of the state-owned operator of the state-owned railway infrastructure.

- Under the Cabinet Order No. 392 *On the increase of the share capital of the state joint stock company Latvijas dzelzceļš* of 15 July 2020, the increase of the share capital of VAS Latvijas dzelzceļš was approved by investing financial resources in the amount of EUR 32 422 016 for the maintenance and development of the railway infrastructure of public use, as well as for stabilising the financial situation in the sector. Under the decision No. A1.1./4-4 of the meeting of shareholders of the *Company* of 27 August 2020, passed the resolution to increase the share capital of the *Company* by EUR 32 422 016. As a result, share capital was increased to EUR 289 142 391.

4. RESEARCH AND DEVELOPMENT ACTIVITIES

Aware of the challenges of the coming years in the field of attracting skilled workers, *Latvijas dzelzceļš* is not only developing the training opportunities that it offers at the *Company's* Training Centre, but in recent years, in cooperation with Riga Technical University, has introduced several new specialisations in the training programmes of Railway Electrical Systems and railway telecommunications. The mastery of these programmes allows not only the development of the technological capacities of the company and the *Group*, but also the provision of skilled workers necessary for the provision of maintenance services for the electrified railway infrastructure in the future.

5. FOREIGN BRANCHES AND REPRESENTATION OFFICES

Since 2012, there is a representative office of *Latvijas dzelzceļš* in the capital of Russia Moscow.

Since 2017, there is a representative office of *Latvijas dzelzceļš* in the capital of Belarus Minsk.

The *Company* has no foreign branches.

6. EVENTS AFTER THE DATE OF PREPARATION OF THE ANNUAL REPORT FOR 2020 AND GOING CONCERN CONSIDERATIONS

Freight transport trends to be observed in 2020 and 2021, as well as current potentially turbulent global and regional developments, including the coronavirus pandemic COVID -19, indicate that freight transport volumes will not improve significantly.

However, despite the difficulties, the management of *Latvijas dzelzceļš* concludes that the going concern principle is applicable for the preparation of the financial statements due to the implementation of the *Group's* new business model, the implementation of the crisis plan and the review of organizational and technological processes aimed at reducing costs in the future, as well as due to the receipt of the necessary public funding under the Multi-Annual Agreement "On the planning and financing of the maintenance and development of railway infrastructure of public use under the management of VAS *Latvijas dzelzceļš*, concluded between VAS *Latvijas dzelzceļš* and the Ministry of Transport. In addition, in 2021 work on the implementation of the *Group's* new business model and the Company's medium-term operational strategy until 2025 will be continued.

The main task of the *Company* is to ensure the operation of the publicly used railway infrastructure and to provide safe, high-quality, and effective railway and logistics services in the best interests of the Latvian state and national economy. To fulfil this task, a Multi-Annual Agreement has been concluded with the Ministry of Transport, which provides for the procedure to ensure financial stability.

In 2020, the *Company* received an advance payment to ensure financial stability. The prepayment in the year and the additional funding required to achieve financial balance in 2020 has been recognised as part of other income in accordance with the recognition principles set out in IAS 20 *Accounting for government grants*. These principles determine the recognition of government grants at the time when there is reasonable assurance that the conditions attached to the receipt of the grant will be met. In addition, grants relating to the payment of costs should be recognised in the period in which the costs are incurred, provided there is reasonable assurance that the grant will be received in the future.

The criteria for the *Company* to receive the financial settlement payment are failure to meet the financial settlement conditions provided in the Multi-Annual Agreement. As the *Company* did not meet the financial settlement conditions provided for in the Multi-Annual Contract in 2020, the criteria for receiving the financial settlement payments provided for in the Multi-Annual Agreement were accordingly met, and the receipt of an advance from the Department of Transportation provided reasonable assurance of the other party's intent and ability to comply with the conditions of the Multi-Annual Agreement, the financial settlement payments were recognised as revenue in 2020. A portion of the required financial settlement payment of EUR 9 503 295 to be received in 2021 has been recognised in the balance sheet under accrued income based on the liabilities and obligations set out in Multi-Annual Agreement.

To clearly present the total recorded financial settlement payments in the financial statements, an additional column "2020 results before financial stability payments" is presented in the *Company's* income statement. This disclosure is not subject to the requirements of International Financial Reporting Standards (IFRS) and is provided as an additional indicator to meet the disclosure requirements laid down in the Multi-Annual Agreement for the *Company's* reporting year result.

Although the full amount of the financial settlement payment is recorded in revenue, there is uncertainty regarding the timing of receipt of the additional funds required by the Company. This uncertainty relates both to the funds to compensate for the costs of maintenance and restoration of railway infrastructure in full for the provision of public transport services throughout 2021 in accordance with the requirements of the concluded Multi-Annual Agreement and to the funding to ensure the financial balance of Latvijas dzelzceļš as part of the Multi-Annual Agreement.

7. FINANCIAL PERFORMANCE

The performance for the reporting year is 0, as *Latvijas dzelzceļš* has recognised the state funding to ensure the financial stability of the operator of the publicly used railway infrastructure, as required by the laws and regulations.

8. STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD

The Management Board of the *Company* (hereinafter "*Management"*) is responsible for the preparation of the *Company's* financial statements.

The financial statements of VAS *Latvijas dzelzceļš* on pages 12 to 54 are prepared based on the accounting records and supporting documents and gives a true view of the *Company's* financial position at 31 December 2020, its performance, and cash flows for 2020.

The above-mentioned financial statements are prepared in accordance with International Financial Reporting Standards adopted in the EU, based on the going concern principle. During preparation of the *Company's* financial statements, the decisions taken by *Management* and the assessments made have been prudent and reasonable.

The *Company's* management is responsible for maintaining adequate accounting records, safeguarding the assets of the *Company*, and detecting and preventing fraud and other violations by the *Company*. The Management is responsible for compliance with the laws of the Republic of Latvia.

Chairman of the Management Board	M. Kleinbergs
Member of the Management Board	V. Balode-Andrūsa
Member of the Management Board	Ē.Šmuksts

This document is signed electronically with secure digital signature and contains time stamp

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of State joint stock company “Latvijas dzelzceļš”

Our opinion

In our opinion, the accompanying financial statements set out on pages 12 to 54 of the accompanying annual report give a true and fair view of the financial position of SJSC “Latvijas dzelzceļš” (the “Company”) as at 31 December 2020, and the Company’s financial performance and cash flows for the year ended 31 December 2020 in accordance with the International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company’s financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2020,
- the statement of financial position as at 31 December 2020,
- the statement of changes in equity for the year ended 31 December 2020,
- the statement of cash flows for the year ended 31 December 2020, and
- the notes to the financial statements which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on Audit Services.

Reporting on Other Information Including the Management Report

Management is responsible for the other information. The other information comprises the Management Report, as set out on pages 3 to 8 of the accompanying annual report, but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information.

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In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Management Report, we also performed the procedures required by the Law on Audit Services. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with requirements of the Law on Annual Reports and Consolidated Annual Reports.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No.168

Member of the Board

Riga, Latvia
15 March 2021

Independent Auditor's Report is signed electronically with a secure electronic signature and contains a time stamp.

Translation note: This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME FOR 2020

(EUR)

	NOTES	2020 RESULTS BEFORE FINANCIAL STABILITY PAYMENTS*	2020	2019
Revenue	4	134 021 827	156 536 122	183 279 901
Cost of goods sold	5	(196 430 966)	(196 430 966)	(200 252 878)
Gross profit or loss		**(62 409 139)**	**(39 894 844)**	**(16 972 977)**
Administration costs	6	(11 286 057)	(11 286 057)	(16 072 529)
Other operating income	7	28 404 763	28 404 763	23 985 722
Other operating expenses	8	(2 292 404)	(2 292 404)	(4 085 888)
Income from shareholding in the:		19 180 710	19 180 710	14 815 799
- capital of subsidiaries	9	19 179 528	19 179 528	14 486 030
- capital of other companies	10	1 182	1 182	329 769
Gain from reversal of previously recognised impairment of investments	17	7 561 000	7 561 000	-
Financial income	11	557 974	557 974	600 237
Financial costs	11	(2 231 142)	(2 231 142)	(2 237 934)
Profit/(loss) before corporate income tax		**(22 514 295)**	**-**	**32 430**
Profit/ (loss) for the reporting year		**(22 514 295)**	**-**	**32 430**
Profit/ (loss) and comprehensive income attributable to shareholders for the reporting year		**(22 514 295)**	**-**	**32 430**

* For explanations on the inclusion of additional non-IFRS measures, see Note 4.

The notes on pages 18 to 54 form an integral part of these financial statements.

Chairman of the Management Board M. Kleinbergs

Member of the Management Board V. Balode-Andrūsa

Member of the Management Board Ē.Šmuksts

The annual report has been prepared by the Finance Directorate of *VAS Latvijas dzelzceļš*:

Head of Finance Division T. Labzova-Ceicāne

This document is signed electronically with secure digital signature and contains time stamp

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020

(EUR)

ASSETS	NOTES	31.12.2020	31.12.2019
Long-term investments			
Property, plant and equipment	13	571 878 389	626 626 699
Right-of-use assets	14	10 140 886	11 222 987
Intangible assets	15	1 127 980	1 557 634
Advance payments for property, plant and equipment		5 487 499	771
Investments in subsidiaries	17	121 982 718	114 421 718
Loans to affiliated companies	19	38 811 049	43 637 613
Other securities and investments	20	84 108	84 108
Total long-term investments		**749 512 629**	**797 551 530**
Current assets			
Inventories	21	6 932 327	11 772 866
Trade and other receivables	22	3 246 672	3 567 011
Receivables due from affiliated companies	38	11 199 307	10 015 924
Accrued income	4	9 503 295	-
Corporate income tax	12	-	30 974
Cash and cash equivalents	23	59 301 731	21 428 257
Total current assets		**90 183 332**	**46 815 032**
Total assets		**839 695 961**	**844 366 562**

(continued on the next page)

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2020 (CONTINUED)

(EUR)

EQUITY AND LIABILITIES	NOTES	31.12.2020	RESTATED 31.12.2019
Equity and liabilities			
Equity			
Share capital	24	289 142 391	256 720 375
Reserves and retained earnings	25	62 092 661	62 118 605
Total equity		**351 235 052**	**318 838 980**
Liabilities			
Non-current liabilities			
Provisions	26	245 409	126 684
Borrowings from credit institutions	27	120 615 523	94 289 947
Trade payables		828 087	486 263
Taxes and national social insurance mandatory contributions	29	19 422 967	-
Lease liabilities		7 664 419	9 358 288
Deferred revenue	28	261 328 621	274 390 157
Total non-current liabilities		**410 105 026**	**378 651 339**
Current liabilities			
Borrowings from credit institutions	27	38 212 777	94 897 411
Provisions	26	3 299	1 858 218
Trade and other payables		14 923 707	17 207 561
Payables to affiliated companies		2 137 377	2 851 741
Taxes and national social insurance mandatory contributions	29	760 059	5 566 204
Lease liabilities		2 562 751	2 425 509
Deferred revenue	28	19 755 913	22 069 599
Total current liabilities		**78 355 883**	**146 876 243**
Total liabilities		**488 460 909**	**525 527 582**
Total equity and liabilities		**839 695 961**	**844 366 562**

The notes on pages 18 to 54 form an integral part of these financial statements.

Chairman of the Management Board M. Kleinbergs

Member of the Management Board V. Balode-Andrūsa

Member of the Management Board Ē. Šmuksts

The annual report has been prepared by the Finance Directorate of VAS *Latvijas dzelzceļš*:
Head of Finance Division T. Labzova-Ceicāne

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STATEMENT OF CHANGES IN EQUITY

(EUR)

	SHARE CAPITAL	RESERVES	RETAINED EARNINGS	TOTAL EQUITY
		2019		
At 01.01.2019	**256 720 375**	**34 294 995**	**27 791 180**	**318 806 550**
Profit for the reporting year	-	-	32 430	32 430
At 31.12.2019	**256 720 375**	**34 294 995**	**27 823 610**	**318 838 980**
		2020		
At 01.01.2020	**256 720 375**	**34 294 995**	**27 823 610**	**318 838 980**
Profit credited to reserves	-	4 184 250	(4 184 250)	-
Payments for the use of state capital from the 2019 profit	-	-	(25 944)	(25 944)
Increase of share capital (see Note 24)	32 422 016	-	-	32 422 016
Profit for the reporting year	-	-	-	-
At 31.12.2020	**289 142 391**	**38 479 245**	**23 613 416**	**351 235 052**

The notes on pages 18 to 54 form an integral part of these financial statements.

Chairman of the Management Board M. Kleinbergs

Member of the Management Board V. Balode-Andrūsa

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STATEMENT OF CASH FLOWS
FOR 2020 (UNDER THE INDIRECT METHOD)

(EUR)

	NOTES	2020	2019
Cash flow from operating activity			
Profit before corporate tax		**-**	**32 430**
Adjustments:			
Depreciation of property, plant, and equipment and other impairment adjustments		48 332 129	31 147 909
Amortisation of intangible assets and other impairment adjustments	15	537 968	540 987
Provisions created	26	(1 736 194)	(1 638 028)
Foreign currency exchange loss	8	14 460	1 105
Income from investments in related companies and other companies	9; 10	(19 180 710)	(14 815 799)
Gain on adjustments to impairment of investments	17	(7 561 000)	-
Other interest and similar income	11	(557 974)	(600 237)
Interest and similar expenses	11	2 231 142	2 237 934
Profit before adjustments in the working capital		**22 079 821**	**16 906 301**
Adjustments:			
(Increase)/decrease in deferred expenses and receivables		(9 334 169)	3 993 872
Decrease/(increase) in inventories		4 835 142	(4 689 278)
Increase/(decrease) in trade and other payables		11 373 392	(14 597 940)
Gross operating cash flow		**28 954 186**	**1 612 955**
Interest expense		(2 237 474)	(2 256 940)
Corporate income tax expense	12	-	(30 000)
Net cash flow from operating activity		***26 716 712***	***(673 985)***
Cash flow from investing activities			
Acquisition of property, plant and equipment and intangible assets		(17 818 753)	(24 478 884)
Proceeds from the sale of property, plant and equipment and intangible assets		1 432 564	55 799
Subsidies or grants received	28	4 714 890	4 675 765
Loans issued	19	(512 512)	-
Proceeds from repayment of loans	19	4 323 745	4 323 745
Interest received		551 816	620 964
Dividends received		19 180 710	15 107 675
Net cash flow from investing activity		***11 872 460***	***305 064***

(continued on the next page)

STATEMENT OF CASH FLOWS FOR 2020 (CONTINUED)

(in EUR)

	NOTES	2020	2019
Cash flow from financing activity			
Share capital increase		32 422 016	-
Borrowings received	27	10 000 647	23 778 000
Borrowings repaid	27	(40 359 705)	(34 695 612)
Lease payments		(2 751 911)	(2 082 842)
Dividends paid		(25 944)	-
Net cash flow from financing activity		***(714 897)***	***(13 000 454)***
Foreign currency exchange rate fluctuations		**(801)**	**(27)**
Increase/(decrease) of cash and cash equivalents in the reporting year		**37 873 474**	**(13 369 402)**
Cash and cash equivalents at the beginning of the reporting year		21 428 257	34 797 659
Cash and cash equivalents at the end of the reporting year	**23**	**59 301 731**	**21 428 257**

The notes on pages 18 to 54 form an integral part of these financial statements.

Chairman of the Management Board	M. Kleinbergs
Member of the Management Board	V. Balode-Andrūsa
Member of the Management Board	Ē.Šmuksts

The annual report has been prepared by the Finance Directorate of *VAS Latvijas dzelzceļš*:
Head of Finance Division T. Labzova-Ceicāne

This document is signed electronically with secure digital signature and contains time stamp

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE COMPANY

Name of the Company	LATVIJAS DZELZCEĻŠ
Legal status of the company	State joint stock company
Address	Gogoļa iela 3, Riga, LV-1547
Uniform registration number	40003032065
Date of registration in the Register of Enterprises	01.10.1991
Date of registration in the Commercial Register	10.09.2004
Place of registration	Riga
Date of issue of the merchant's registration certificate	10.09.2014
Type of principal activity (NACE 2)	42.12 Construction of railways and subways 52.21 Road transport auxiliary activities
Shareholder	Republic of Latvia (100%)
Holder of capital shares	Ministry of Transport of the Republic of Latvia Gogoļa iela 3, Riga, LV-1743
Supervisory body	Council of the Company
Council	Jānis LANGE, chairman of the Council Andris MALDUPS, member of the Council Andris LIEPIŅŠ, member of the Council Reinis CEPLIS, member of the Council Aigars LAIZĀNS, member of the Council until 01.02.2021
Management Board	Maris KLEINBERGS, chairman of the Management Board Ēriks ŠMUKSTS, member of the Management Board Vita BALODE – ANDRŪSA, member of the Management Board from 01.06.2020 Andris LUBĀNS, member of the Management Board until 01.06.2020 Ainis STŪRMANIS, member of the Management Board until 13.03.2020
Name and address of the auditor and responsible certified sworn auditor	SIA PricewaterhouseCoopers Uniform registration No 40003142793 LACA commercial company licence No. 5 Kr. Valdemāra iela 21-21 Riga, LV-1010 Latvia Responsible sworn auditor Ilandra Lejiņa Certificate No. 168
Reporting year	1 January 2020 to 31 December 2020

2. ACCOUNTING AND MEASUREMENT PRINCIPLES

These financial statements present the financial position of *Latvijas dzelzceļš* as a stand-alone company. The financial position of the *Group* (VAS *Latvijas dzelzceļš* and its subsidiaries) is presented in the consolidated financial statements.

These financial statements cover the period from 1 January 2020 to 31 December 2020. They were approved for publication by the Management Board on 15 March 2021. The financial statements will be approved by the shareholder meeting convened by the Management Board of *Latvijas dzelzceļš* after receiving the auditor's opinion and the Council's report.

2.1. ACCOUNTING AND MEASUREMENT PRINCIPLES

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU. Due to the EU endorsement process, the notes also include standards and interpretations that have not yet been adopted for use in the EU, as these standards and interpretations, once adopted into European law, may have an impact on the *Company's* financial statements in future periods.

These financial statements have been prepared under the historical cost convention and the going concern principle.

The IFRS require the *Company's Management* to such make assumptions and judgments in the preparation of financial statements, which affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. Except for the areas listed below, there are no other areas in which material or complex assumptions must be made or in which the assumptions and estimates made are relevant in the context of the financial statements.

The IFRS, the amendments thereto and amendments to their interpretations, the implementation of which had a material effect on the Company's business activities, did not come into force in the reporting year. In the reporting year, the following amendments to the standards came into force as of 1 January 2020 and have been approved for use in the EU:

- Amendments to the Financial reporting conceptual framework;
- Amendments to IFRS 3 regarding the business definition;
- Amendments to IAS 39 and IFRS 8 regarding the materiality definition;
- Amendments to IFRS 9, IAS 39 and IFRS 7 regarding the interest rate reform;
- Amendments to IFRS 16 for reporting Covid-19 concessions in lessee accounts.

The *Company's* management has performed an impact assessment of other standards and interpretations that will be effective on 1 January 2021 and does not expect them to have a material impact on the *Company's* financial statements.

2.2. FOREIGN CURRENCY REVALUATION

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the *Company* operates (functional currency). Items included in the financial statements are presented in the official currency of the Republic of Latvia, the euro (EUR), which is the *Company's* functional currency.

Transactions and balances in foreign currencies

All transactions in foreign currencies are translated into EUR at the EUR exchange rate published by European Central Bank at the beginning of the date of the transaction. Monetary assets and liabilities denominated in foreign currency on the last day of the reporting year are translated into EUR in the financial statements at the exchange rate to be used in the books as published by European Central Bank at the end of the last day of the reporting year.

Exchange rate differences arising from settlements in currencies are recognised in the profit or loss.

Foreign currency exchange rates

FOREIGN CURRENCY	EUR 31.12.2020	EUR 31.12.2019
USD	1.22710	1.12340
CHF	1.08020	1.08540
RUB	91.46710	69.95630

2.3. INTANGIBLE ASSETS

Intangible assets mainly consist of software licences. Initially, they are measured at cost. Intangible assets have a finite and limited period of use. Subsequently, intangible assets are measured at cost, less accumulated amortisation, and impairment loss.

Subsequent costs are capitalised as an increase in the value of the existing intangible asset or recognised as a separate intangible asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the *Company* and the cost of the item can be measured reliably. The remaining costs are recognised in profit or loss as incurred.

For intangible assets, amortisation is calculated using the straight-line method to amortise the cost over its useful life and is recognised in income over that period. Generally, intangible assets are amortised over five years.

2.4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any, as described below.

Costs include those directly attributable to the acquisition of the property, plant, and equipment item. The value of self-constructed assets consists of the price of materials and direct labour, and any other costs directly attributable to providing the asset in a working condition for its intended purpose, as well as the cost of demolishing and removing the asset and restoring it to its intended location. The cost of acquiring computer software that is closely related to and cannot be separated from the functionality of the equipment is capitalised as part of the equipment.

The Company capitalises the property, plant, and equipment items with the cost above EUR 300 and has a useful life exceeding one year. Investments in leased assets are capitalised and presented as property, plant, and equipment.

If the useful lives of individual components of an asset differ, they are accounted for as separate components. Estimated residual values and useful lives of property, plant, and equipment are reviewed and adjusted, if necessary, at each date of the reporting year.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the *Company*, and the cost of the item can be measured reliably. The remaining costs of current repair and maintenance of fixed assets are charged off to profit or loss account in the period when incurred.

The gain or loss on disposal of property, plant, and equipment is calculated as the difference between the book value of the asset and the proceeds from the sale and is charged off to profit or loss in the period when incurred.

Where the book value of a property, plant, and equipment item is higher than its recoverable amount, its book value is written down to its recoverable amount (Note 3).

Depreciation

Depreciation on property, plant and equipment is calculated using the straight-line method. Depreciation is charged off to the profit and loss account.

Investments in leased assets are depreciated over the shorter of the lease term or the useful life of a comparable item of property, plant and equipment at the rates applicable to the category to which the leased property, plant and equipment belongs. Land is not depreciated.

For the *Company's* property, plant and equipment, the depreciation expense for the period is calculated from the carrying amount of each item of property, plant and equipment using the useful life established for that item of property, plant and equipment.

PROPERTY, PLANT AND EQUIPMENT (PPE)	USEFUL LIFE
Buildings and structures	10-130 years
Perennial plantings	40 years
Railway rolling stock – wagons for technological use	22-40 years
Railway rolling stock – locomotives, diesel trains and technological equipment	5-40 years
Track equipment	30 years
Computer, communications equipment, copiers, and their fittings	3-10 years
Other property, plant and equipment	5-28 years

Unfinished construction

Assets that are not ready for their intended use at the time of purchase or are in the process of installation are classified under *Unfinished construction*. The historical cost of unfinished construction is increased during the period for borrowing costs and other direct costs associated with the relevant object until its commissioning into operation. The initial value of the relevant item of property, plant and equipment is not increased by borrowing costs in periods when active work on the development of the unfinished construction object is not carried out.

At the time unfinished construction is completed and ready for its intended use, it is reclassified to the appropriate category of property, plant and equipment and the calculation of depreciation is begun. Unfinished construction properties are regularly measured to determine whether they show any signs of impairment.

2.5. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

All the *Company's* tangible and intangible assets have a finite useful life (except for land and the museum stocks). Depreciable assets are reviewed for impairment whenever events and circumstances indicate that their carrying amount may not be recoverable.

An impairment loss is recognised as the difference between the asset's carrying amount and its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. To determine impairment, assets are grouped at the lowest level for which a cash flow can be determined (cash-generating units). The impairment loss is recognised in profit or loss.

An impairment loss recognised in prior periods is reviewed at each balance sheet date to determine whether there is any indication that the loss may have decreased or may no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the amount to be recovered. An impairment loss may be reversed only to the extent that the carrying amount of the asset does not exceed its carrying amount, less the depreciation that would have been determined had the impairment loss not been recognised.

2.6. FINANCIAL INSTRUMENTS

Classification of financial instruments

The *Company's* financial instruments consist of financial assets (financial assets at amortised cost and financial assets at fair value through profit or loss) and financial liabilities (financial liabilities at amortised cost).

The classification of debt instruments depends on the business model implemented by the *Company's* financial asset management, as well as on whether the contractual cash flows consist solely of principal and interest payments (SPPI). If the debt instrument is held to collect cash flows, it can be accounted for at amortised cost if it meets the SPPI requirements. Financial assets whose cash flows do not meet the SPPI requirements must be measured using the FVPL method (e.g., financial derivatives). Embedded derivatives are not separated from financial assets, but when they are included under financial assets, the SPPI requirements are considered.

Equity instruments are generally measured at fair value. However, management has the irrevocable option to recognise a change in fair value in other income if the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value must be charged off to profit or loss.

Recognition and derecognition

Financial assets are recognised when the *Company* has become a party to a transaction and has fulfilled the conditions of the transaction, i.e., on the trading date.

Financial assets are derecognised when the *Company's* contractual obligations to receive cash flows from the financial asset expire or when the *Company* transfers the financial asset to another party or transfers the significant risks and rewards of ownership of the asset. Purchases and sales of financial assets in the ordinary course of business are accounted for on the trade date, i.e., the date on which the *Company* decides to buy or sell the asset.

A financial liability is derecognised when the obligation underlying the liability is waived, cancelled, or expires.

Measurement

At the time of initial recognition, financial instruments are measured at their fair value. For financial assets and financial liabilities at amortised cost at the time of initial recognition, fair value shall be adjusted for transaction costs directly attributable to that financial instrument.

Financial assets at fair value through revaluation in profit or loss account

This category includes *the Company's* equity instruments reported under Other securities and investments. These investments are reported under Long-term assets unless the *Management* intends to sell them within 12 months from the closing date of the reporting year. The fair value of these financial assets is determined based on estimates made by the *Company's Management* based on the financial information of these investments. Changes in fair value are charged to profit or loss.

Dividends on investments are recognised in profit or loss when the *Company's* established its legal right to receive the payment.

Financial assets at amortised cost

Financial assets at amortised cost are debt instruments with a fixed or determinable payment schedule that are not held for trading and whose future cash flows consist solely of principal and interest payments. Financial assets at amortised cost include trade and other receivables, receivables of affiliated companies, and cash and cash equivalents. Financial assets at amortised cost are classified as short-term assets if the fall due in less than one year. If they fall due in more than one year, then they are presented as long-term assets. Short-term receivables are not discounted.

Financial assets at amortised cost are initially recognised at fair value and are subsequently reported at amortised cost using the effective interest rate method, net of provisions for impairment.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current account balances and short-term deposits with original maturities of less than 90 days, and short-term highly liquid investments that are readily convertible to known amounts of cash and which are not subject to significant changes in value.

Impairment of financial assets at amortised cost

Impairment losses are recognised using the expected credit loss (ECL) model. The model follows a three-step approach based on a change in the credit quality of the financial asset compared to initial recognition. Upon initial recognition of a financial asset, the Company recognises an immediate loss equal to the 12-month ECL even if the financial asset is not impaired (trade and other receivables are recognised over their useful lives). In the event of a significant increase in credit risk, impairment is measured using the asset's lifetime ECL rather than the 12-month ECL. The model includes operational relief for trade receivables.

The *Company* has applied the operational relief allowed by IFRS 9 in respect of the measurement of trade receivables – trade receivables are grouped by their credit quality and due date, with the ECL percentage applied to each relevant group. The ECL rates are estimated considering the payment history of the last three years, and this indicator is adjusted with the aim of considering information on current and future forecasts.

Related party receivables are assigned to a separate group, the ECL of which is calculated, considering not only past experience, but also the creditworthiness of the ultimate owner – the Republic of Latvia – and forecasts of future development.

Impairment provisions are recorded in a separate provision account and losses are recognised in the income statement. If, in the next period after the impairment loss is recognised, the amount of the loss decreases and the decrease can be related objectively to the event occurring after the impairment loss was recognised (e.g., an improvement in the debtor's credit rating), the reversal of previously recognised impairment losses is recognised in profit or loss.

Financial liabilities at amortised cost

Financial liabilities at amortised cost consist of Borrowings from credit institutions, Other borrowings, Trade payables and Other payables, as well as Payables to affiliated companies.

Financial liabilities at amortised cost are initially recognised at fair value. In subsequent periods, financial liabilities at amortised cost are reported at amortised cost using the effective interest rate. Financial liabilities at amortised cost are classified as current liabilities if they fall due in one year or less. If they fall due in more than one year, then they are presented as non-current liabilities.

Borrowings

When borrowings are initially recognised, they are stated at fair value less costs associated with the borrowing. In subsequent periods, borrowings are measured at amortised cost using the effective interest rate. The difference between the amount of cash received net of borrowing costs and the cost of repayment of the borrowings is recognised in the income statement over time using the effective interest rate of the borrowings. This difference is included in finance costs.

Borrowings are classified as current liabilities unless the *Company* has an irrevocable right to defer settlement of the liability for at least 12 months after the balance sheet date.

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and reported in the balance sheet at net values if there is a legal right to offset them and if the intention is to settle at net values or to settle the liability and to transfer the asset simultaneously.

2.7. INVENTORIES

Inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. Cost is determined using the weighted average cost method for fuel and other inventory items using the FIFO (first in, first out) method.

If necessary, provisions for impairment are made for obsolete, slow-moving or damaged inventories. A 100% provision is made for inventories that have not been used for more than one year. The amount of the provisions is recognised in profit or loss.

2.8. SHARE CAPITAL AND PAYMENTS FOR THE USE OF PUBLIC CAPITAL SHARES (DIVIDENDS)

The share capital of the *Company* consists of ordinary registered shares. All shares of the *Company* are dematerialised shares. The nominal value of each share is one euro.

Dividends payable to the *Company's* shareholder or payments for the use of state capital shares are recognised as a liability in the financial statements in the period in which the *Company's* shareholder approves the amount of dividends.

2.9. OTHER RESERVES

After approval of each annual report, the shareholder meeting decides on the distribution of profit for the reporting year. A part of the *Company's* profit after taxes, based on the decision of the *Company's* meeting of shareholders, may be transferred to the reserve capital. For this purpose, *Other reserves* have been created under equity. The use and distribution of other reserves lies within the competence of the shareholder meeting.

2.10. ACCRUALS FOR UNUSED ANNUAL LEAVES

Accruals for unused annual leaves are calculated for each employee by multiplying the number of unused vacation days at the end of the reporting year by the average daily salary in the last six months of the reporting year and adding the employer's share of national social insurance mandatory contributions.

2.11. PROVISIONS

Provisions are recognised when the *Company* has a present legal or constructive obligation because of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the *Company* expects to reverse some or all its provisions, the reversal should be recognised as a separate asset only if it is virtually certain that the expense will be recovered. Expenses relating to the creation of provisions are recognised in profit or loss after deduction of the amounts recovered.

2.12. CORPORATE INCOME TAX

Corporate income tax is calculated in accordance with the legislation in force at the end of the reporting period. The current legislation lays down a tax rate of 20 percent of the calculated taxable base, which before the application of the tax rate was adjusted by dividing the value of the object subject to corporate income tax by a coefficient of 0.8. Corporate income tax, calculated from the distribution of profits in dividends, is recorded in the income statement separately, and in other cases - at the cost of other economic activities.

2.13. REVENUE RECOGNITION

Revenue is the consideration received for the performance of principal activities. Revenue is measured at the contractual transaction price. The transaction price is the amount that the *Company* expects to receive after control of the goods or services has been transferred, net of the amounts collected on behalf of third parties (e.g., value added tax). The transaction price is reduced by any rebates or other incentives received by the customer. Specific criteria for recognising *the Company's* revenue by type of revenue are set out below.

The *Company* does not have any customer contracts with a settlement period of more than one year. Therefore, the *Company* does not adjust account for changes in the value of money over time. In addition, the settlements do not provide for variable consideration.

Revenue from the sale of goods is recognised when control of the goods has been transferred, i.e., when the Company has delivered the goods to the customer and the goods have been accepted by the customer and it is probable that the receivable will be collected.

Revenue from the rendering of services is recognised in the period in which the services are rendered, considering the ratio of the total service rendered to the total contractual service, if applicable.

The *Company* provides the following services (which are generally recognised in accordance with IFRS 15):

- **Public usage rail infrastructure services –** Access to the railway infrastructure provided by the infrastructure manager on a non-discriminatory basis to all carriers. *Latvijas dzelzceļš* provides a minimum package of services for access to the public use railway infrastructure connecting the railway infrastructure with service facilities (minimum access complex), as well as a service for maintenance of the service location. The services of the minimum access package are provided from 1 July 2019 in accordance with the Commission Implementing Regulation (EU) 2015/909 on the modalities for the calculation of the cost that is directly incurred because of operating the train service of 12 June 2015. *The Company* was granted state budget funds to ensure financial compensation for the operator of the railway infrastructure used by the public. The amount of the grant received (excluding VAT) is recognised as revenue in the period in which the services are provided, but not more than in the amount of the grant received.
- **Service point maintenance services** – Maintenance of passenger stations and stops. The Company has been granted state budgetary funds for the maintenance of unused occupation places. The amount of the grant received (excluding VAT) is recognised as revenue in the period in which the services are performed, capped at the amount of the funds received.
- **Additional services of the infrastructure operator –** Handling of freight train compositions by means of or without train formation, maintenance, and inspection of wagons. Revenue is recognised in the period in which the services are performed.
- **Lease services** – The *Company* leases buildings, structures, land and other tangible assets not required for its operations primarily to other carriers and other companies and organisations related to the operation of rail infrastructure. Leasing of the unused space located in the objects of railway infrastructure reduces the cost of providing the main services. This improves the competitiveness of the principal services and the efficiency of object use. Revenue is recognised in the period in which the services are rendered. Revenue is recognised in the period in which the services are rendered. Revenue from lease services is recognised in accordance with IFRS 16.
- **Electricity sales services** – Distribution and sale of electricity to individuals, corporations and dependent subsidiaries and purchase of electric energy for electric traction of passenger trains. Electricity distribution (traction substations and contact network) required for traction of passenger trains is included in the cost of infrastructure and is excluded from electricity distribution services. Latvijas dzelzceļš provides electricity sales services to electricity consumers, fulfilling its obligations set out in the Electricity Market Law, the Law on Regulatory Authorities Public Services and Cabinet Regulation No. 50 on the sale and use of electricity. Latvijas dzelzceļš acts as the main provider of services, therefore revenues and related costs are recognised on a gross basis. Revenues are calculated depending on tariffs and actual kilowatt hours consumed in the consumption period.
- **Services of a principal** – They include transit clearance at border stations, transit declaration at base stations, temporary storage. Revenue is recognised in the period in which the services are provided.
- **Electronic communications services** – Data and electronic messaging services, leased line services, electronic infrastructure access point services. Revenue is recognised based on actual use of network capacity in the relevant reporting period.
- **Information technology services** – Include services related to freight, passenger, train, and business support, control, and management information systems. Revenue is recognised in the period in which the services are provided.
- **Other services** – These services include management services to dependent companies, sales of self-produced heat, management services and various other minor services to corporate and individual customers. Revenue is recognized in the period in which the services are rendered.

Interest income

Interest income is recognised on an accrual basis, applying the effective interest rate. Interest income from cash and cash equivalents is classified as financial income.

Income from fines

Using the prudence principle, contractual penalties, including late payment interest past the due date are recognised in revenue only upon receipt.

Dividend income

Dividend income is recognised when legal rights to receive them arise.

2.14. LEASE AGREEMENTS

Classification

When entering contracts, the *Company* considers whether the contract is a lease or contains a lease. A contract is a lease or contains a lease if the contract confers the right to control the use of an identifiable asset for a specified period in exchange for consideration. To assess whether an arrangement is, or contains, a lease, the *Company* assesses whether:

- The contract provides for the use of an identifiable asset – the asset may be directly or indirectly designated and must be physically separable or represent the total capacity of the asset from the physically separable asset. If the supplier has significant rights to substitute the asset, the asset is not identifiable;
- The *Company* derive all economic benefits from the use of the identifiable asset for the entire period of its use;
- - The *Company* has the right to determine the use of the identifiable asset. The *Company* has the right to determine the manner of use if it can decide how and for what purpose the asset will be used. In cases where it has been decided in advance how and for what purpose the asset is to be used, the entity shall determine whether it has the right to dispose of the asset or to determine that the asset is to be used in a particular way, or whether the *Company* intends to use the asset in the way that determines in advance how and for what purpose the asset is to be used.

When initially measuring or remeasuring a contract that contains one or more lease components, the *Company* attributes to each lease component its relative stand-alone price.

Lessee

A lease is recognised as rights to use the asset and the corresponding lease liability on the date the leased asset is available for use by the *Company*. The cost of the right-of-use assets consists of:

- initial measurement of the lease liabilities;
- any lease payments made on or before the start date less any lease promotion payments received;
- any initial direct costs.

Right-of-use assets are amortised on a straight-line basis from the beginning to the end of the useful life of the underlying asset. Right-of-use assets are amortised on a straight-line basis from the inception of the lease to the end of the lease term unless there is a plan to redeem the asset. The right-of-use asset is periodically reduced for any impairment losses and adjusted for the revaluation of the lease liability.

Lease assets and lease liabilities are measured at the present value of the remaining lease payments at the date of initial application, discounted at the *Company's* comparable interest rate. The lease liability comprises the present value of the following lease payments:

- fixed lease payments (including in substance fixed lease payments), net of rental incentive payments;
- variable lease payments which depend on the index or rate;
- payments to be made to the lessee under residual value guarantees;
- where there are reasonable grounds to believe that the lessee will use the option, and
- payment of fines for termination of the lease, if the term of the lease reflects the fact that the lessee uses the opportunity to terminate the lease.

Lease liabilities are reassessed if there is a change in future lease payments due to a change in the index or rate used to determine those payments, if there is a change in the *Company's* estimate of expected payments, or if the *Company* changes its assessment of the option to purchase or extend the lease. termination. When the lease liability is reassessed, an appropriate adjustment is made to the book value of the right to use asset or recognised in the income statement if the book value of the right to use asset decreases to zero.

Each lease payment is split into lease obligation and the interest expense on the lease obligation. The interest expense of the lease obligation is recognised in the income statement during the lease period to form a constant periodic interest rate on the remaining lease obligation during each period.

Current leases and leases with a low value of the underlying asset

Leases related to current leases or leases with a low value of the underlying asset are recognised as expenses according to the linear method in the income statement. A short-term lease is a lease the lease term of which on the starting date is 12 months or less.

Accounting for sublease transactions (*the Company* is the lessor)

If the company is the lessor under the contract, but part of the leased property is leased, it is a sublease. Each sublease is assessed to determine whether it meets the definition of a finance lease or an operating lease in relation to the right-of-use asset. It is accounted for in accordance with the specified type of sublease - the Company is a lessor under the terms of an operating lease, or the *Company* is a lessor under the terms of a finance lease. If the sublease is a finance lease, it is accounted for separately as a lease receivable. Offsetting is not performed.

Accounting for sublease transactions:

- The *Company*, as an intermediate lessor, reduces the right-of-use asset by creating a "finance lease receivable" for that portion without recognising lease income from the sublease, but calculates interest income from the "finance lease receivable."
- During the term of the sublease, the *Company*, as an intermediate lessor, recognises depreciation expense on the “right-of-use asset” to the extent of the portion of the “right-of-use asset” that is not subleased, but recognises interest expense on the lease in full.

2.15. STATE BUDGET CO-FINANCING AND EU FINANCING

Co-financing from the State budget and EU financing are recognised at fair value if there is reasonable certainty that they will be received, and it can be credibly claimed that the *Company* will be able to meet all the conditions attached to the receipt of these funds.

The co-financing from the state budget and the EU financing attributable to assets (property, plant, and equipment) are reported under the balance sheet item "Deferred revenue" and recognised periodically in the profit or loss pro rata to the depreciation of the relevant assets (property, plant and equipment) over their useful lives.

Pursuant to the provisions of the Multi-Annual Agreement, the *Company* has inserted a column *2020 results before financial stability payments* in the Statement of comprehensive income. Although IFRS does not require such an indicator, the non-IFRS indicator is presented in the financial statements to provide the reader with a clear view of the *Company's* financial position without receipt of financial stability payments.

2.16. RELATED PARTIES

Related parties are the State, the members of the Management Board and Council of *the Company*, their close family members and companies in which they exert significant influence or control.

2.17. EVENTS AFTER THE BALANCE SHEET DATE

Such events after the end of the reporting year are presented in the financial statements, which provide additional information on the *Company’s* financial position at the balance sheet date (adjusting events). If events after the balance sheet date are not adjusting events, they are disclosed in the notes to the financial statements, only if material.

2.18. EMPLOYEE BENEFITS

Social security contributions and pension plan contributions

The *Company* makes social insurance contributions to the State pension insurance scheme in accordance with Latvian law. The State pension insurance scheme is a defined contribution pension plan, under which the *Company* must make payments in the statutory amount. The *Company* has no additional legal or constructive obligation to make further payments if the State pension insurance scheme is unable to meet its obligations to employees. Social security contributions are charged off to expenses on an accrual basis and form a part of staff costs. Pursuant to the Cabinet Regulation No. 786 “Regulation on the Distribution of the Rates of National Social Insurance Contribution Rates by Type of National Social Insurance" dated 19 December 2017, in 2020, 69.82% of the national social insurance mandatory contributions were paid to finance the State defined contribution pension system.

2.19. INVESTMENTS IN SUBSIDIARIES

Investments in the capital of subsidiaries are carried at cost less impairment loss.

The Company recognises income only when it receives a share of the profit of the subsidiary or associate after its acquisition. Amounts received more than this profit are treated as a recovery of the investment and are recognised as a reduction of the cost of the investment.

If there is objective evidence that the carrying amount of an investment in subsidiaries has decreased, the impairment loss shall be calculated as the difference between the carrying amount of the investment and its recoverable amount. An impairment loss on an investment may be reversed if there has been a change in the estimates used to determine the impairment loss since the impairment loss was last recognised.

3. SIGNIFICANT ASSUMPTIONS AND JUDGMENTS

The preparation of financial statements in accordance with the IFRS requires the making of significant assumptions. It also requires management to make its assumptions and judgments using the accounting policies adopted by the *Company*.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of information at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The areas most affected by assumptions are the assumptions and calculations used by management in determining the recoverable amount of assets and the amount of provisions, as described below.

Useful life of property, plant, and equipment

At the end of each reporting period, the Company reviews the remaining useful life of the asset. Based on the Company's most recent assessment Financial Directorate, the current useful life of the Company's property, plant and equipment is the same as the actual useful life of the asset.

Provisions

When assessing provisions, the Management uses estimates of contingent obligations and the period in which the obligations could materialise. If these events do not occur or occur in differently manner, the actual cost may differ from the estimated cost. More detailed information on the assumptions regarding provisions is presented in Note 26.

Impairment of property, plant, and equipment

An impairment loss is recognised for the property, plant, and equipment items that are not economically recoverable and for assets whose future expected economic benefits are significantly less than their carrying amount. The most significant impairment loss is recognised for buildings, structures and rail roads based on the future cash flows from the use of these assets to provide services. The future expected cash flows are determined based on the annual actual results for 2020 and extrapolated over the next ten years. The calculation period of ten years is chosen due to the nature of the assets of the infrastructure operator – they are long-term assets that provide income over a long period of time.

A weighted average cost of capital (WACC) of 2,54% is used in discounting the future forecast cash flows, which is the same as that used by the infrastructure manager. WACC is the most significant variable impacting the total impairment charge. WACC of 4.04% (increase of 1.5%) would increase the impairment by EUR 64 million. On the other hand, if the WACC was 2% (a decrease of 0.54%), no impairment would be recognised.

Financial stability payment

The main task of the Company is to ensure the operation of railway infrastructure of public use and safe, high-quality, and effective railway and logistics services for the benefit of the Latvian state and national economy. For this task, the Multi-Annual Agreement has been concluded with the Ministry of Transport, which provides for arrangements to ensure financial stability (see Note 4).

4. REVENUE

(EUR)

TYPES OF OPERATIONS	2020	2019
Revenue from customer contracts (IFRS 15):		
Fees for the use of public-use railway infrastructure	60 324 456	115 219 899
Additional services of the infrastructure manager	20 777 350	33 821 211
Electricity sale services	6 637 836	6 531 328
Information technology services	4 068 172	4 520 628
Services of a principal	1 364 081	1 536 720
Specific services related to infrastructure maintenance and repair	1 319 835	756 004
Services at passenger stations	995 624	-
Electronic communications services	527 734	556 308
Construction services	129 871	25 943
Other services	3 397 659	3 970 906
Other revenue:		
Revenue for the maintenance of railway infrastructure (state budget funding)	30 276 102	11 648 447
Financial stability income*	22 514 295	-
Rental services	3 953 981	4 095 770
Revenue for maintenance of service sites (State budget funding)	249 126	596 737
Total	**156 536 122**	**183 279 901**

* The financial stability payment received in advance in the reporting year and additionally required to ensure financial stability is recognised as other income in accordance with the recognition principles set out in IAS 20 *Accounting for Government Grants*. These principles determine the recognition of state grants in the period when there is reasonable certainty of the fulfilment of the conditions relating to the receipt of the grant. In addition, grants relating to the covering of costs should be recognised during the period when the costs are incurred, if there is reasonable certainty of receipt of the grant in the future.

The criteria for the *Company* to receive the financial stability compensation is non-compliance with the financial equilibrium conditions set out in the Multi-Annual Agreement. Since the Company did not meet the financial equilibrium conditions provided for in the Multi-Annual Agreement in 2020, the criteria for receiving the financial compensation provided for in the Multi-Annual Agreement were accordingly met, as well as the receipt of an advance from the Ministry of Transport provided reasonable assurance of the other party's intention and ability to meet the conditions of the Multi-Annual Agreement.

Latvijas dzelzceļš has received an advance payment of EUR 13 011 000 as financial stability for the State-owned operator of the publicly used railway infrastructure, which is provided for in the national laws and regulations to ensure financial compensation and has been used in full to cover losses and recognised as other income as at 31.12.2020. Part of the required financial stability payment in the amount of EUR 9 503 295 to be received in 2021 has been recognised in the statement of financial position as "Accrued income" based on the commitments and obligations stipulated in the Multi-Annual Agreement.

To present the total recorded financial stability payments clearly in the annual financial statements, an additional column “2020 results before financial stability payments" is shown in the *Company's* income statement. The disclosure of this information is not required by IFRS and is provided as an additional indicator of compliance with the disclosure requirements of Multi-Annual Agreement in the financial statements regarding the *Company's* profit or loss for the year.

5. COST OF GOODS SOLD

(EUR)

ELEMENTS OF THE COST OF PRODUCTION OF MARKETED PRODUCTION	2020	2019
Salaries	64 277 981	73 924 898
National social insurance mandatory contributions	15 433 431	17 719 066
Materials, heating and fuels	6 965 621	10 402 235
Electricity	9 314 761	9 469 196
Depreciation of property, plant and equipment and amortisation of intangible assets	46 416 768*1)	47 284 947
Impairment of fixed assets	17 855 261	-
Amortisation of the rights to use assets	2 296 145	1 762 931
Payment for manoeuvring works	5 639 785	9 106 769
Security services	4 638 579	4 695 676
Cost of maintenance of Information Systems	1 965 047	2 400 228
Rent fee	750 680	1 772 989
Current repair costs of fixed assets and equipment	2 468 288	3 445 728
Payment for utilities	1 613 867	1 760 617
Payment for the work of locomotives and brigades	1 115 457	1 997 032
Real estate tax	619 696	612 307
Other costs	15 059 599 *2)	13 898 259
Total	**196 430 966**	**200 252 878**

**1) Depreciation of tangible and intangible fixed assets includes the parts of depreciation for the current year (EUR 18 763 195) of the objects created for co-financing from the EU funds and the country, which relate to the financial support received, see Note 28.*

**2) Other expenses include payment for the services of the sworn auditor company SIA PricewaterhouseCoopers:*

(EUR)

	2020	2019
On the audit of financial statements	50 100	56 750
On the performance of other tasks of the expert	17 017	51 835

6. ADMINISTRATION COSTS

(EUR)

	2020	2019
Salaries	7 535 080	10 527 725
National social insurance mandatory contributions	1 805 073	2 515 000
Materials, heating, fuel, electricity	74 233	208 402
Depreciation of property, plant and equipment and amortisation of intangible assets	686 285	697 179
Amortisation of the rights-of-use assets	146 667	160 558
Other costs	1 038 719	1 963 665
Total	**11 286 057**	**16 072 529**
of which remuneration of the Company's Management Board and Council members	612 795	716 296
including salary	*494 666*	*577 239*
national social security mandatory contributions (the employer's contributions)	*118 129*	*139 057*

7. OTHER OPERATING INCOME

(EUR)

	2020	2019
Partial recognition of deferred revenue	18 763 195	19 437 568
Gain on sale of inventories	2 424 165	74 767
VAT adjustment for the 2019 minimum access service *1)	2 571 489	-
Adjustment of other provisions (see Note 26)	1 855 027	3 496 246
Accrued annual leave liabilities	1 422 509	171 288
Gain on sale of fixed assets	602 706	35 772
Penalties and overdue charges	168 133	160 476
Funding for work environment-based training implementation project	17 690	14 751
State budget grant for compensation of damages	-	74 526
Social infrastructure revenue	-	212
Other revenue	579 849	520 116
Total	**28 404 763**	**23 985 722**

*1) *The calculated VAT of EUR 2 571 489 from the grant received for the maintenance of public railway infrastructure and service points.*

8. OTHER OPERATING COSTS

(EUR)

	2020	2019
Adjustment of other provisions	835 178	3 299
Loss on disposal of fixed assets and unfinished construction	516 626	1 097 262
Change in provisions for obsolete materials (See Note 21)	431 780	33 418
Costs in accordance with the collective agreement of the *Latvijas dzelzceļš* Group, etc.	253 691	796 303
Foreign currency exchange rate fluctuations	14 460	1 105
Currency conversion	14 786	18 836
Penalties and overdue charges	16 708	3 635
Social infrastructure maintenance costs	109	1 737
Adjustment of provisions for doubtful debts (see Note 22)	8 623	22 367
Provisions for severance pay (See Note 26)	-	1 854 919
Other costs	200 443	253 007
Total	**2 292 404**	**4 085 888**

9. INCOME FROM SHAREHOLDING IN THE CAPITAL OF SUBSIDIARIES AND ASSOCIATES

(EUR)

	2020	2019
Dividends received from the subsidiaries of Latvijas dzelzceļš:	**19 179 528**	**14 486 030**
SIA “LDZ CARGO”	12 294 615	10 631 078
SIA “LDZ ritošā sastāva serviss”	3 999 699	2 753 844
SIA “LDZ infrastruktūra”	2 250 073	672 709
SIA “LDZ Loģistika”	313 559	375 985
SIA “LDZ apsardze”	229 147	46 444
AS “LatRailNet”	92 435	5 970

10. INCOME FROM SHAREHOLDING IN THE CAPITAL OF OTHER COMPANIES

(EUR)

DIVIDEND INCOME	2020	2019
SIA “STREK”	-	329 633
Belarus-Latvia joint venture “MIRIGO”	1 182	136
Total	**1 182**	**329 769**

11. FINANCIAL COSTS, NET

(EUR)

	2020	2019
Financial income	**557 974**	**600 237**
Bank interest	3	36
Other interest income	557 971	600 201
Financial costs	**(2 231 142)**	**(2 237 934)**
Bank interest	(2 095 746)	(2 115 221)
Interest costs in lease transactions	(135 396)	(122 713)
Financial costs, net	**(1 673 168)**	**(1 637 697)**

12. CORPORATE INCOME TAX

The Company calculates corporate income tax in accordance with the legislation of the Republic of Latvia.

(EUR)

OVERPAID CORPORATE INCOME TAX FOR THE REPORTING YEAR	2020	2019
Overpaid at 1 January	**30 974**	**974**
Calculated for the reporting year	-	-
Paid in the reporting year	-	30 000
Transferred to other taxes	(30 974)	-
Overpaid at 31 December	**-**	**30 974**

13. PROPERTY, PLANT AND EQUIPMENT (PPE)

(EUR)

	LAND PLOTS	BUILDINGS, STRUCTURES AND PERRENIAL PLANTATIONS	TRACKS	LONG-TERM INVESTMENTS IN LEASED PPES	PLANT AND MACHINERY	COMPUTERS, COMMUNICATION EQUIPMENT, COPIERS AND THEIR FITTINGS	OTHER PPE	COST OF UNFINISHED CONSTRUCTION OBJECTS	TOTAL
Historical cost at 01.01.2020	**855 252**	**203 839 448**	**848 210 790**	**130 692**	**310 955 799**	**42 742 781**	**32 105 912**	**1 961 290**	**1 440 801 964**
Additions and completion of PPEs	-	1 224 511	7 420 527		1 040 290	1 835 751	355 523	(621 941)	11 254 661
Reclassified	-	25 400	-	(25 400)	-	-	-	-	-
Disposals	-	(166 803)	(2 758 932)	-	(2 245 684)	(5 000 507)	(991 991)	(65 832)	(11 229 749)
Historical cost at 31.12.2020	**855 252**	**204 922 556**	**852 872 385**	**105 292**	**309 750 405**	**39 578 025**	**31 469 444**	**1 273 517**	**1 440 826 876**
Accumulated depreciation at 01.01.2020	**-**	**117 107 254**	**480 730 162**	**69 173**	**158 908 749**	**33 121 620**	**24 238 307**	**-**	**814 175 265**
Depreciation charge	-	3 655 958	28 561 857	7 803	10 149 695	2 943 487	1 291 973	-	46 610 773
Reclassified	-	10 703	-	(10 703)	-	-	-	-	-
On disposals	-	(154 513)	(2 484 974)	-	(2 167 152)	(3 910 340)	(975 833)	-	(9 692 812)
Accumulated depreciation at 31.12.2020	**-**	**120 619 402**	**506 807 045**	**66 273**	**166 891 292**	**32 154 767**	**24 554 447**	**-**	**851 093 226**
Impairment of PPE *	**(37 801)**	**(2 182 327)**	**(15 220 032)**	**-**	**(325 116)**	**-**	**(89 985)**	**-**	**(17 855 261)**
NBV at 01.01.2020	**855 252**	**86 732 194**	**367 480 628**	**61 519**	**152 047 050**	**9 621 161**	**7 867 605**	**1 961 290**	**626 626 699**
NBV at 31.12.2020	**817 451**	**82 120 827**	**330 845 308**	**39 019**	**142 533 997**	**7 423 258**	**6 825 012**	**1 273 517**	**571 878 389**

**In 2020, impairment of EUR 17 855 261 was recognised. Detailed information on the impairment calculation is provided in Note 3.*

The capitalised part of salaries is included in the cost of PPE was EUR 1 311 528 in 202 (In 2019 - EUR 1 964 529). In 2020, amounts spent on repairs, upgrading and acquisition of PPEs, intangible investments, as well as the construction of new facilities amounted to EUR 17 818 753. (In 2019: EUR 24 478 884).

(EUR)

	LAND PLOTS	BUILDINGS, STRUCTURES AND PERRENIAL PLANTATIONS	TRACKS	LONG-TERM INVESTMENTS IN LEASED PPES	PLANT AND MACHINERY	COMPUTERS, COMMUNICATION EQUIPMENT, COPIERS AND THEIR EQUIPMENT	OTHER PPE	COST OF UNFINISHED CONSTRUCTION OBJECTS	TOTAL
Historical cost at 01.01.2019	**830 252**	**201 093 125**	**836 914680**	**2 548 121**	**310 560 955**	**39 947 024**	**31 347 639**	**3 446 263**	**1 426 688 059**
Additions and completion of fixed assets	25 000	2 929 571	15 175 479	-	1 974 347	3 235 074	1 209 472	(1 466 444)	23 082 499
Reclassified	-	(62 745)	-	(2 417 429)*)	4 212	(2 357)	58 533	-	(2 419 786)
Disposals	-	(120 503)	(3 879 369)	-	(1 583 715)	(436 960)	(509 732)	(18 529)	(6 548 808)
Historical cost at 31.12.2019	**855 252**	**203 839 448**	**848 210 790**	**130 692**	**310 955 799**	**42 742 781**	**32 105 912**	**1 961 290**	**1 440 801 964**
Accumulated depreciation at 01.01.2019	**-**	**113 603 873**	**454 268 789**	**732 169**	**150 198 739**	**30 527 696**	**23 471 041**	**-**	**772 802 307**
Depreciation charge	-	3 598 335	29 395 500	8 348	10 226 643	3 028 594	1 266 669	-	47 524 089
Reclassified	-	(46)	-	(671 344)*)	4 212	-	(4 166)	-	(671 344)
Depreciation charge	-	(94 908)	(2 934 127)	-	(1 520 845)	(434 670)	(495 237)	-	(5 479 787)
Accumulated depreciation at 31.12.2019	**-**	**117 107 254**	**480 730 162**	**69 173**	**158 908 749**	**33 121 620**	**24 238 307**	**-**	**814 175 265**
NBV at 01.01.2019	**830 252**	**87 489 252**	**382 645 891**	**1 815 952**	**160 362 216**	**9 419 328**	**7 876 598**	**3 446 263**	**653 885 752**
NBV at 31.12.2019	**855 252**	**86 732 194**	**367 480 628**	**61 519**	**152 047 050**	**9 621 161**	**7 867 605**	**1 961 290**	**626 626 699**

*) *Cost at 01.01.2019 was EUR 2 417 429 and accumulated depreciation of EUR 671 344 EUR were reclassified to right to use assets.*

14. RIGHT-OF-USE ASSETS

(EUR)

	RIGHT-OF-USE LAND PLOTS	RIGHT-OF-USE BUILDINGS AND STRUCTURES	RIGHT-OF-USE TRACKS	RIGHT-OF- USE PLANT AND MACHINERY	RIGHT-OF- USE COMPUTERS AND THEIR EQUIPMENT, COMMUNICATION EQUIPMENT, COPIERS AND THEIR EQUIPMENT	RIGHT-OF- USE OTHER FIXED ASSETS	TOTAL
Historical cost at 01.01.2020	**492 702**	**5 620 035**	**2 656 256**	**2 255 591**	**1 019 409**	**1 980 210**	**14 024 203**
New lease agreements	35 299	20 942	-	84 460	-	2 871 345	3 012 046
Amendments to contracts and termination of contracts	(118 891)	(2 554 742)	1 598 700	(953 952)	-	(556 633)	(2 585 518)
Historical cost at 31.12.2020	**409 110**	**3 086 235**	**4 254 956**	**1 386 099**	**1 019 409**	**4 294 922**	**14 450 731**
Accumulated depreciation at 01.01.2020	**82 743**	**1 218 452**	**533 353**	**494 394**	**239 861**	**232 413**	**2 801 216**
Depreciation charge	83 374	533 479	529 045	416 359	245 251	818 536	2 626 044
On disposals	(43 591)	(829 646)	-	(127 331)	-	(116 847)	(1 117 415)
Accumulated depreciation at 31.12.2020	**122 526**	**922 285**	**1 062 398**	**783 422**	**485 112**	**934 102**	**4 309 845**
NBV at 01.01.2020	**409 959**	**4 401 583**	**2 122 903**	**1 761 197**	**779 548**	**1 747 797**	**11 222 987**
NBV at 31.12.2020	**286 584**	**2 163 950**	**3 192 558**	**602 677**	**534 297**	**3 360 820**	**10 140 886**

(EUR)

	RIGHT-OF- USE LAND	RIGHT-OF- USE BUILDINGS AND STRUCTURES	RIGHT-OF- USE TRACKS	RIGHT-OF- USE TECHNOLOGICAL EQUIPMENT AND DEVICES	RIGHT-OF- USE COMPUTING EQUIPMENT AND THEIR EQUIPMENT, COMMUNICATION EQUIPMENT, COPIERS AND THEIR EQUIPMENT	RIGHT-OF- USE OTHER FIXED ASSETS	TOTAL
Historical cost at 01.01.2019	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Impact of the implementation of IFRS 16	492 485	3 333 939	2 654 715	1 087 516	1 019 409	693 784	9 281 848
Reclassified from PPE	-	2 417 429	-	-	-	-	2 417 429
New lease agreements	-	-	-	1 180 421	-	1 426 409	2 606 830
Amendments to contracts and termination of contracts	217	(131 333)	1 541	(12 346)	-	(139 983)	(281 904)
Initial value 31.12.20219	**492 702**	**5 620 035**	**2 656 256**	**2 255 591**	**1 019 409**	**1 980 210**	**14 024 203**
Accumulated amortisation at 01.01.2019	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Amortisation charge and impact of the implementation IFRS 16	82 743	547 108	533 353	494 394	239 861	232 413	2 129 872
Reclassified from PPE	-	671 344	-	-	-	-	671 344
Accumulated amortisation at 31.12.2019	**82 743**	**1 218 452**	**533 353**	**494 394**	**239 861**	**232 413**	**2 801 216**
NBV at 01.01.2019	**-**	**-**	**-**	**-**	**-**	**-**	**-**
NBV at 31.12.2019	**409 959**	**4 401 583**	**2 122 903**	**1 761 197**	**779 548**	**1 747 797**	**11 222 987**

15. INTANGIBLE ASSETS

(EUR)

LICENCES AND RIGHTS	2020	2019
Historical cost at the beginning of the year	**9 682 330**	**9 036 174**
Additions	5 943	672 870
Reclassified from property, plant, and equipment	302 886	2 357
Disposals	(788 077)	(29 071)
Historical cost at the end of the year	**9 203 082**	**9 682 330**
Accumulated amortisation at the beginning of the year	**8 124 696**	**7 612 390**
Calculated depreciation	537 968	540 987
Reclassified from property, plant, and equipment	68 510	-
Disposals	(656 072)	(28 681)
Accumulated amortisation at the end of the year	**8 075 102**	**8 124 696**
Net book value at the beginning of the year	**1 557 634**	**1 423 784**
Net book value at the end of the year	**1 127 980**	**1 557 634**

16. INVESTMENTS IN SUBSIDIARIES

SUBSIDIARIES

SIA “LDZ CARGO”	
Uniform registration number	40003788421
Address	Dzirnavu iela 147, k-1, Riga, LV-1050
Shareholding, %	100% shareholder is VAS "Latvijas dzelzceļš”
Reporting year	01.01.2020 – 31.12.2020
SIA “LDZ ritošā sastāva serviss”	
Uniform registration number	40003788351
Address	Turgeņeva iela 21, Riga, LV-1050
Shareholding, %	100% shareholder is VAS "Latvijas dzelzceļš”
Reporting year	01.01.2020 – 31.12.2020
SIA “LDZ infrastruktūra”	
Uniform registration number	40003788258
Address	Gogoļa iela 3, Riga, LV-1050
Shareholding, %	100% shareholder is VAS "Latvijas dzelzceļš”
Reporting year	01.01.2020 – 31.12.2020
SIA “LDZ apsardze”	
Uniform registration number	40003620112
Address	Zasas iela 5-3, Riga, LV-1057
Shareholding, %	100% shareholder is VAS "Latvijas dzelzceļš”
Reporting year	01.01.2020 – 31.12.2020
AS “LatRailNet”	
Uniform registration number	40103361063
Address	Turgeņeva iela 21, Riga, LV-1050
Shareholding, %	100% shareholder is VAS "Latvijas dzelzceļš”
Reporting year	01.01.2020 – 31.12.2020

SIA "LDZ Loģistika"	
Uniform registration number	40003988480
Address	Dzirnavu iela 147, k-2, Riga, LV-1050
Shareholding, %	100% shareholder is VAS "Latvijas dzelzceļš"
Reporting year	01.01.2020 – 31.12.2020
The subsidiary of SIA "LDZ ritošā sastāva serviss" SIA "Rīgas Vagonbūves uzņēmums "Baltija""	
Uniform registration number	40103419565
Address	Turgeņeva iela 14, Riga, LV-1050
Shareholding, %	100% shareholder is SIA "LDZ ritošā sastāva serviss"
Reporting year	01.01.2020 – 31.12.2020

17. CARRYING AMOUNT OF INVESTMENTS IN SUBSIDIARIES

(EUR)

SUBSIDIARY	SHAREHOLDING BY LDZ, %	31.12.2020	31.12.2019
SIA "LDZ CARGO"	100	80 492 369	80 492 369
SIA "LDZ ritošā sastāva serviss" *1)	100	29 351 905	29 351 905
SIA "LDZ infrastruktūra"*2)	100	11 166 070	3 605 070
SIA "LDZ apsardze"	100	298 803	298 803
AS "LatRailNet"	100	35 571	35 571
SIA "LDZ Loģistika"	100	638 000	638 000
Total	**X**	**121 982 718**	**114 421 718**

*1) *SIA "LDZ ritošā sastāva serviss" is the sole shareholder in SIA "Rīgas Vagonbūves Uzņēmums "Baltija"".*

*2) *In the reporting year, the previously recognized impairment loss of EUR 7,561,000 was reversed. The reversal of impairment is related to a change in assumptions regarding the future expected cash flows of SIA "LDZ infrastruktūra" - if this subsidiary was previously considered a going concern, considering the decisions made at the end of 2020, it is no longer considered to be such. At 31 December 2020, the recoverable amount of the subsidiary was determined based on the planned liquidation during the following year.*

Long-term financial investments in the capital of subsidiaries in the books of *Latvijas dzelzceļš* are measured at historical cost, less accumulated impairment loss, if any.

18. INDICATORS OF THE SUBSIDIARIES FOR 2020

(EUR)

SUBSIDIARY	SHAREHOLDING OF LDZ, %	PROFIT (LOSS) FOR 2020	PROFIT FOR 2019	EQUITY 31.12.2020	EQUITY 31.12.2019
SIA "LDZ CARGO"	100	(3 302 621)	2 816 613	114 697 852	130 295 088
SIA "LDZ ritošā sastāva serviss"	100	(5 293 735)	680 248	36 305 321	45 598 755
SIA "LDZ infrastruktūra"	100	(3 216 840)	384 269	12 602 161	18 069 074
SIA "LDZ apsardze"	100	159 488	84 413	635 108	704 766
AS "LatRailNet"	100	64 462	51 745	105 449	133 421
SIA "LDZ Loģistika"	100	(126 704)	627 118	1 249 040	1 689 303
Total	**x**	**(11 715 950)**	**4 644 406**	**165 594 931**	**196 490 407**

Latvijas dzelzceļš Group operates public railway infrastructure, provides railway transport services and related services. The Group includes: the parent company of the Group - state joint stock company "Latvijas dzelzceļš", SIA "LDZ CARGO", SIA "LDZ ritošā sastāva serviss", SIA “LDZ infrastruktūra”, SIA “LDZ apsardze”, SIA “LDZ Loģistika”, AS “LatRailNet”, and the subsidiary of SIA “LDZ ritošā sastāva serviss” – SIA “Rīgas Vagonbūves Uzņēmums “Baltija””.

A coordinated *Group* strategy and objectives have been developed to ensure optimal allocation of production and investment resources between business units and *Group* companies, coordination of decision-making and effective control of their implementation. Latvijas dzelzceļš represents the *Group's* interests at the international level.

Latvijas dzelzceļš provides the minimum set of services for access to the public railway infrastructure and access to the public railway infrastructure providing the railway infrastructure to service stations, services, freight wagon handling, wagon maintenance and testing, electricity distribution and trading services, leasing services, information technology services, electronic communication services, services of a principal and other services specified in Section 12[1], Paragraph one of the Railway Law.

SIA “LDZ CARGO” is engaged in providing domestic as well as international railway freight transport services, traction services, rolling stock lease services, as well as in organising international passenger transport services.

SIA “LDZ ritošā sastāva serviss” performs repair, upgrading, maintenance and maintenance work of locomotives and wagons, as well as fuel disposal and equipment services.

SIA “LDZ infrastruktūra” provides repair and rental services for track equipment, as well as track welding services. 2021. within a year after receiving the appropriate permission from the Cabinet of Ministers, it is planned to liquidate SIA “LDZ infrastruktūra”.

SIA “LDZ apsardze” provides physical and technical security services to the Group's companies and other companies, as well as individuals.

AS “LatRailNet” determines the fee for the use of the railway infrastructure for public use and distributes the capacity of the railway infrastructure, as well as makes decisions on the posting of trains of a particular carrier.

SIA “LDZ Loģistika” provides freight forwarding and logistics services and is engaged in attracting new cargo flows and promotes rail freight transport between European and Asian countries.

The subsidiary of SIA “LDZ ritošā sastāva serviss” – SIA “Rīgas Vagonbūves Uzņēmums “Baltija”” was founded with the aim of developing rolling stock manufacturing in Latvia.

19. LOANS TO AFFILIATED COMPANIES

At 31 December 2020, loans issued to SIA “LDZ ritošā sastāva serviss” to finance upgrading of diesel locomotives was EUR 42 921 268.

The loan movement table:

(EUR)

LOANS TO AFFILIATED COMPANIES	BALANCE AT 01.01.2020	RECLASSIFIED ACCORDING TO DUE DATES	LOANS REPAID	BALANCE AT 31.12.2020 (GROSS CARRYING AMOUNT)	PROVISIONS FOR EXPECTED CREDIT LOSSES*	BALANCE AT 31.12.2020 (NET BOOK VALUE)
Long-term portion	43 637 613	(4 323 745)	-	39 313 868	(502 819)	38 811 049
Short-term portion	4 323 745	4 323 745	(4 323 745)	4 323 745	(213 526)	4 110 219
Total	**47 961 358**	**-**	**(4 323 745)**	**43 637 613**	**(716 345)**	**42 921 268**

** In 2020, provisions of EUR 716 345 were created for the expected credit loss because the financial performance indicators of SIA “LDZ rolling stock serviss” has deteriorated significantly compared to previous periods.*

(EUR)

LOANS TO AFFILIATED COMPANIES	BALANCE AT 01.01.2019	RECLASSIFIED ACCORDING TO DUE DATES	LOANS REPAID	BALANCE AT 31.12.2019 (GROSS CARRYING AMOUNT)	PROVISIONS FOR EXPECTED CREDIT LOSSES*	BALANCE AT 31.12.2019 (NET BOOK VALUE)
Long-term portion	47 961 358	(4 323 745)	-	43 637 613	-	43 637 613
Short-term portion	4 323 745	4 323 745	(4 323 745)	4 323 745	-	4 323 745
Total	**52 285 103**	**-**	**(4 323 745)**	**47 961 358**	**-**	**47 961 358**

(in EUR)

	BALANCE AT 01.01.2020.	ISSUED LOANS	REPAID LOANS	BALANCE AT 31.12.2020
Other short-term loans to affiliated companies	-	512 512	-	512 512
Total	**-**	**512 512**	**-**	**512 512**

20. OTHER LONG-TERM FINANCIAL INVESTMENTS

(EUR)

NAME OF THE COMPANY	MULTIPLE %	CARRYING AMOUNT 31.12.2020	CARRYING AMOUNT 31.12.2019
Belarus-Latvia joint venture “MIRIGO”	3.0	10 126	10 126
SIA “STREK”	5.84	73 982	73 982
Total	**X**	**84 108**	**84 108**

21. INVENTORIES

(EUR)

	31.12.2020	31.12.2019
Road surface materials	6 460 795	11 410 608
Spare parts	298 610	326 882
Other materials	1 595 089	2 014 977
Heating and fuel	146 431	231 420
Other inventories and work in progress	1 480 991	406 788
Gross carrying amount	**9 981 916**	**14 390 675**
Provisions for obsolete materials	(3 049 589)	(2 617 809)
Net book value	**6 932 327**	**11 772 866**

22. TRADE AND OTHER RECEIVABLES

(EUR)

	31.12.2020	31.12.2019
Trade receivables	2 165 791	1 860 284
Doubtful debts	733 181	731 017
Other payables	1 080 881	1 706 727
Gross carrying amount	**3 979 853**	**4 298 028**
Provisions for impairment of accounts receivable	(733 181)	(731 017)
Net book value	**3 246 672**	**3 567 011**

MOVEMENT FOR IMPAIRMENT OF ACCRUAL RECEIVABLES	2020	(EUR) 2019
Provisions for impairment of receivables at the beginning of the year	731 017	802 962
Reduction of provisions due to recovery of receivables	(12 975)	(17 705)
Reduction of provisions due to write-off of the receivables	(16 978)	(94 312)
Additional provisions created	32 117	40 072
Provisions for impairment of receivables at the end of the year	**733 181**	**731 017**

To estimate the expected impairment, the receivables were grouped according to their risk characteristics and days outstanding (see detailed information in Note 30). The expected loss rates are based on historical recovery figures, determined as the ratio of bad debts to relevant sales in the last 36 months (counted either from 31 December 2020 or from 1 January 2020). The historical loss ratios have been adjusted to reflect current and forecast information on macroeconomic factors affecting the ability of customers to settle with the *Company*. GDP forecasts are considered the most important factor as they have the most direct impact on bad debts.

In making these calculations as at 31 December 2020 and 1 January 2020, the provisions for such trade receivables that were paid within the terms or were outstanding for less than 6 months were immaterial, therefore they have been recognised at nil in the financial statements.

Similar calculations were made for related party debt, related party loans, other debtors and cash and cash equivalents, except that these calculations were based on external credit rating agencies' default rates for similar debtors or groups of debtors rather than historical experience. This approach was adopted as the *Company* does not have historical data on losses on these groups of financial assets. As a result of the calculations at 31 December 2019, it was determined that the credit quality of the assets was good, therefore the expected credit losses were not material and were set at zero. As at 31 December 2020, expected credit losses of EUR 716 thousand were recognised due to changes in the credit quality of the subsidiaries.

In accordance with the *Company's* accounting policy, trade receivables that are more than six months outstanding are generally provided for at 100% for expected credit losses, with adjustments made only to reflect the possible recoverability of such receivables.

23. CASH AND CASH EQUIVALENTS

	31.12.2020	(EUR) 31.12.2019
Cash at bank	59 301 554	21 426 079
Cash on hand	177	2 178
Total	**59 301 731**	**21 428 257**

24. SHARE CAPITAL

Registered and paid-up share capital of the Company

The share capital of *Latvijas dzelzceļš* is EUR 289 142 391, consisting of two hundred and eighty-nine million one hundred and forty-two thousand three hundred and ninety-one shares, with a nominal value of EUR 1 (one EUR) per share. Under the Cabinet Regulation No. 392 *On Increasing the Share Capital of the State Joint Stock Company Latvijas Dzelzceļš* of 15.07.2020, share capital was increased by EUR 32 422 016.

The Republic of Latvia is the sole shareholder, the shares have been fully paid-up. The holder of capital shares of the *Company* is the Ministry of Transport. All shares of the *Company* carry equal rights to receive dividends, liquidation quota and voting rights at the meeting of shareholders.

Payments for the use of state capital (dividends)

Since the Cabinet had not adopted a resolution in 2020 on the share of profits of VAS “Latvijas dzelzceļš” to be distributed in the form of dividends for 2019, pursuant to Paragraph 3 of Cabinet Regulation No. 806 *Procedure under which state corporations and public-private corporations in which the state has a shareholding forecast and determine the share of profit to be distributed in the form of dividends and make payments to the state budget for the use of state capital* of 22.12.2015, the minimum predictable share of profit to be distributed in the form of dividends and the share of profit to be distributed in the form of dividends shall be 80% of the profit for the reporting year of the corporation, unless otherwise specified in the medium-term operational strategy. Pursuant to paragraph 9, no later than two months after the approval of the company's annual report, the general meeting of shareholders shall decide on the proportion of profit to be distributed in the form of dividends as a percentage of the corporation's profit.

On 27 August 2020, the shareholder meeting, by resolution No. A1. 1./ 4-3, decided to distribute the net profit of EUR 25 944 of VAS Latvijas dzelzceļš for the year 2019 in the form of dividends and to retain 20%, i.e., EUR 6 486 as reserves of VAS *Latvijas dzelzceļš* of public-use railway infrastructure for development and reconstruction, including accumulation of reserves that can be used by *the Company*, which will ensure sustainability of maintenance and for use of public-use railway infrastructure for implementation of projects in accordance with the medium-term strategy of the *Company* for the years 2017-2022.

25. OTHER RESERVES AND RETAINED EARNINGS

Reserves consist of retained earnings from previous periods, which by the owner's decision have been transferred to other reserves to ensure the development of the *Company*. Retained earnings have been adjusted by adjusting the fair value of property, plant, and equipment in accordance with IFRS. The procedure for the use of the *Company's* reserves and retained earnings of previous years is determined by the shareholders' meeting of the *Company*.

26. PROVISIONS

(EUR)

	31.12.2020	31.12.2019
Other provisions	245 409	126 684
Total non-current share	**245 409**	**126 684**
Provisions for severance pay	-	1 854 919
Other provisions	3 299	3 299
Total current portion	**3 299**	**1 858 218**
Total	**248 708**	**1 984 902**

Provision movement table by type of provision in 2020

(EUR)

	01.01.2020	REDUCTION OF PROVISIONS/ INCREASE	31.12.2020
Provisions for severance pay	1 854 919	(1 854 919)	-
Other provisions	129 983	118 725	248 708
Total	**1 984 902**	**(1 736 194)**	**248 708**

Provision movement table by type of provision in 2019

(EUR)

	01.01.2019	REDUCTION OF PROVISIONS/ INCREASE	31.12.2019
Provisions for public use railway infrastructure services	3 460 852	(3 460 852)	-
Provisions for severance pay	-	1 854 919	1 854 919
Other provisions	162 078	(32 095)	129 983
Total	**3 622 930**	**(1 638 028)**	**1 984 902**

27. BORROWINGS FROM CREDIT INSTITUTIONS

(EUR)

	31.12.2020	RESTATED 31.12.2019
Non-current borrowings from credit institutions	120 615 523	94 289 947
Current borrowings from credit institutions	38 212 777	94 897 411
Total borrowings from credit institutions	**158 828 300**	**189 187 358**

Borrowings were from Swedbank AS, Nordea Bank AB, SEB banka AS, Nordic Investment Bank, OP Corporate Bank plc, OP Corporate Bank branch in Latvia and Luminor Bank AS Latvian branch. During the reporting period, loans totalling EUR 10 000 647 were received and repaid EUR 40 359 705.

The loan agreements concluded by the *Company* with the banks specify the respective financial covenants of VAS *Latvijas dzelzceļš* or the consolidated financial statements, which must be complied with during the term of the loan agreement. At 31 December 2020 and the beginning of 2021, no long-term borrowings had breach of covenants.

Latvijas dzelzceļš has not pledged its property against the received borrowings.

In the financial statements for 2020, the classification error made in the previous period was corrected. The error of EUR 54 538 351 was due to the breach of covenants specified in the borrowing agreements, which led to specified borrowings required to be presented in the financial statements as current borrowings, under the requirements of IAS 1 *Presentation of financial statements*, while they were presented as non-current borrowings. In the financial statements of 2020, the opening balances were restated, reclassifying accordingly the 2019 indicators and correcting errors that arose in the previous period.

Borrowings repayable and interest rates at 31 December 2020:

BORROWING CURRENCY	BORROWING IN EUR	INTEREST RATE
EUR	120 284 069	3M EURIBOR + 0,77% to 3,5%
	38 544 231	6m EURIBOR + 0,75% to 1,2%
Total	**158 828 300**	

Borrowings repayable and interest rates at 31 December 2019:

BORROWING CURRENCY	BORROWING IN EUR	INTEREST RATE
EUR	13 222 560	1M EURIBOR + 1.33%
	129 717 010	3M EURIBOR + 0.69% to 1.61%
	46 247 788	6m EURIBOR + 1.05% to 1.8%
Total	**189 187 358**	

Borrowings and accrued interest movement table

(EUR)

	2020	2019
Borrowings and accrued interest at the beginning of the reporting period	**189 303 447**	**200 240 066**
Receipt of loans during the reporting period	10 000 647	23 778 000
Interest accrued during the reporting period	2 095 746	2 115 221
Repayment of loans during the reporting period	(40 359 705)	(34 695 612)
Interest paid during the reporting period	(2 102 078)	(2 134 228)
Borrowings and accrued interest at the end of the reporting period	**158 938 057**	**189 303 447**

28. DEFERRED REVENUE

(EUR)

	31.12.2020	31.12.2019
Long-term share of deferred revenue (EU funds and state budget funds)	261 261 523	274 298 372
Other deferred revenue	67 098	91 785
Total non-current share	**261 328 621**	**274 390 157**
Short-term share of deferred revenue (EU funds and state budget funds)	19 340 684	20 571 574
Other deferred revenue	415 229	1 498 025
Total current portion	**19 755 913**	**22 069 599**
Total deferred revenue	**281 084 534**	**296 459 756**

Most of the revenue for future periods is from EU funds and State budget funds received for the development of railway infrastructure.

EU and State budget fund movement table in 2020

(EUR)

DEFERRED REVENUE	BALANCE AT 01.01.2020	RECLASSIFIED (MOVED)	RECEIVED	REFUNDING OF UNUSED FUNDS	REDUCTION IN DEPRECIATION OF PPE	BALANCE AT 31.12.2020
Long-term portion	274 298 372	(17 751 739)	4 714 890	-	-	261 261 523
Short-term portion	20 571 574	17 751 739	-	(219 434)	(18 763 195)	19 340 684
Total	**294 869 946**	**-**	**4 714 890**	**(219 434)**	**(18 763 195)**	**280 602 207**

In 2020, an advance payment of EUR 4 693 683 was received from the EU funds for the project *Modernisation of the Sarkandaugava-Mangaļi-Ziemeļblāzma section of the Riga railway junction* and an advance payment of EUR 39,236 was received from the European Commission Innovation and Networks Executive Agency (INEA) as the Connecting Europe Facility CEF) manager of the project *Development of an Interoperable Railway System in the Baltic States*, of which EUR 18,029 was transferred by *Latvijas dzelzceļš* as a beneficiary to JSC *Eesti Raudtee*.

EU and State budget fund movement table in 2019

(EUR)

DEFERRED REVENUE	BALANCE AT 01.01.2019.	RECLASSIFIED (MOVED)	RECEIVED	REDUCTION IN DEPRECIATION OF PPE	BALANCE AT 31.12.2019
Long-term portion	290 237 333	(20 614 726)	4 675 765	-	274 298 372
Short-term portion	19 394 416	20 614 726	-	(19 437 568)	20 571 574
Total	**309 631 749**	**-**	**4 675 765**	**(19 437 568)**	**294 869 946**

In 2019, an advance payment of EUR 4 664 375 was received from the EU funds for the project *Modernisation of the Sarkandaugava-Mangaļi-Ziemeļblāzma section of the Riga railway junction* and an advance payment of EUR 21 073 was received from the European Commission Innovation and Network Executive Agency (INEA) CEF) manager of the project *Development of an Interoperable Railway System in the Baltic States*, of which EUR 9 683 was transferred by *Latvijas dzelzceļš* as a beneficiary to JSC Eesti Raudtee.

29. TAXES AND NATIONAL SOCIAL INSURANCE MANDATORY CONTRIBUTIONS

(EUR)

TYPE OF TAX	TAX LIABILITY (+) 31.12.2019	OVERPAYMENT OF TAXES (-) 31.12.2019	TAX LIABILITY (+) 31.12.2020	TAX OVERPAYMENT (-) 31.12.2020.
Corporate income tax	-	(30 974)	-	-
National social insurance national contributions	2 635 030	-	11 476 533	-
Personal income tax	1 275 124	-	4 341 942	-
including Belarus	*681*		*540*	
Real estate tax	-	(305)	-	(55)
Natural resources tax	2 481	-	6 567	-
Value added tax	1 650 408	-	4 356 230	-
Vehicle operating tax	348	-	-	-
Corporate light vehicle tax	544	-	-	-
Business risk duty	2 269	-	1 754	-
Total	**5 566 204**	**(31 279)**	**20 183 026***	**(55)**

** Long-term liabilities EUR 19 422 967, short-term liabilities EUR 760 059.*

At 31.12.2020 *Latvijas dzelzceļš* had no outstanding payments to the budget. The increase in personal income tax, national social insurance mandatory contributions and value added tax liabilities is related to the fact that in the emergency situation, the State Revenue Service has extended for *Latvijas dzelzceļš* the payment term for the personal income tax, state social insurance mandatory contribution and value added tax for April, May, June, July and December 2020 for three years, because *Latvijas dzelzceļš* complied with the provisions of Section 4, paragraph one of the Covid-19 Infection Consequence Management Law.

30. FINANCIAL RISK MANAGEMENT

The *Company's* most significant financial instruments are borrowings from banks, other borrowings, cash, as well as receivables and payables. The main task of these financial instruments is to provide financing for the *Company's* business activities. The *Company* also has several other financial assets and liabilities, such as trade receivables and payables to suppliers and contractors, which arise directly from the *Company's* operations.

The *Company* is exposed to market, credit and liquidity risks related to its financial instruments. Financial risk management is provided by the Finance Directorate and the Finance Committee of *Latvijas dzelzceļš*.

***The Company's financial instruments are categorised as follows*:**

(EUR)

	31.12.2020	31.12.2019
Financial assets at amortised cost		
Trade and other receivables, excluding advances	61 679 442	55 513 821
Cash and cash equivalents	59 301 731	21 428 257
Financial assets at fair value through revaluation in profit or loss account		
Long-term financial investments	84 108	84 108
Total financial assets	**121 065 281**	**77 026 186**
Financial liabilities at amortised cost		
Borrowings from credit institutions	158 828 300	189 187 358
Debts to suppliers, contractors, and other creditors, including lease obligations, excluding advances (including long-term part)	28 062 705	31 502 821

Total financial liabilities	**186 891 005**	**220 690 179**

Market risk

Market risk is the risk that changes in market factors, such as changes in foreign exchange rates, interest rates and commodity prices, will affect *the Company's* revenue or the value of its financial instruments. Market risk includes currency risk and interest rate risk.

Interest rate risk

Interest rate risk is the risk of incurring losses due to changes in the interest rates of the *Company's* assets and liabilities. *The Company* is exposed to the risk of changes in market interest rates associated with its long-term floating rate liabilities.

All the *Company's* borrowings have variable interest rates. See Note 27 for a detailed description of interest rates on borrowings. The Company manages its interest rate risk by periodically evaluating borrowing rates available in the market. When lower than current interest rates are available, the Company evaluates the financial benefits of debt restructuring.

The *Company* does not use financial derivative instruments to manage interest rate risk.

Interest rate sensitivity

The following table sets out the sensitivity of the *Company's* pre-tax profit to reasonably possible changes in interest rates at the end of each reporting period, provided that all other variables remain unchanged. The *Company's* equity, except for the result of the reporting year, is not affected.

	2020		2019	
	BASE RATE INCREASE / DECREASE (BASE POINTS)	EFFECT ON PROFIT BEFORE TAX (EUR)	INCREASE/ DECREASE IN BASE RATE (BASIS POINTS)	EFFECT ON PROFIT BEFORE TAX (EUR)
EURIBOR	(+100)	(1 588 283)	(+100)	(1 891 874)
	(-100)	1 588 283	(-100)	1 891 874

Currency risk

Currency risk is the risk of incurring losses because of unfavourable FX rate changes in relation to assets and liabilities in foreign currencies. Currency risk to which the *Company* is exposed arises primarily from its operations - income and expenses are denominated in different currencies from foreign currency borrowings. The *Company's* trade receivables and borrowings from banks are mainly denominated in euros. A detailed breakdown of financial instruments by currency is provided in Note 33.

The main currency risk management tool used by the *Company* is the identification and use of foreign currency funds to cover liabilities in foreign currencies.

The *Company's Management* has decided not to use derivative financial instruments for currency risk management.

Currency sensitivity

The *Company* did not have significant foreign currency balances during the reporting year; therefore, the potential impact of exchange rate fluctuations was insignificant.

Credit risk

Credit risk is the risk that a counterparty will default on its obligations to the *Company*, causing it significant financial loss. The *Company* is exposed to credit risk arising directly from its business activities – mainly trade receivables, and credit risk related to the *Company's* financing activities - mainly cash deposits with banks.

Trade receivables

The Company manages trade receivables in accordance with the *Group's* policies. Before concluding contracts, the solvency of buyers and customers is assessed. The *Company* will insure against credit risk by receiving prepayments from its customers.

The Company monitors receivables on an ongoing basis to reduce the possibility of bad debts. Possible impairment of trade debts is constantly analysed.

The *Company* has not received collateral as security for trade receivables.

At 31 December 2020, the *Company* had three customers (in 2019: also, three customers), each of which owed the *Company* more than EUR 700 thousand and accounted for about 90.9% of the total receivables (90,0% in 2019). Excluding the receivables due from the subsidiaries not yet matured at 31 December 2020 with an amount over EUR 700 thousand, the receivables were owed by two customers accounted for 56.9% of the total receivables.

The Company has not developed an internal credit rating system for assessing trade receivables.

In 2020, there has been no significant changes in the expected credit losses in relation to trade receivables.

Write-off of trade receivables occurs only if their recovery is not expected. Indicators indicating the impossibility of recovery include, inter alia, the debtor's inability to agree on a repayment schedule, which is accompanied by the debtor's insolvency, bankruptcy, or liquidation.

The *Company* is exposed to maximum credit risk as shown in the table below:

(EUR)

	31.12.2020	31.12.2019
Cash and cash equivalents	59 301 731	21 428 257
Receivables and other receivables (gross amount), excluding advances and prepayments	63 128 968	56 244 838
Total	**122 430 699**	**77 673 095**

At 31 December 2020, expected credit losses were determined by applying the following expected credit loss rates:

(EUR)

	Current	Outstanding for over 30 days	Outstanding for over 90 days	Outstanding for 120 days	Total
Expected credit loss rate	1.20%	2.00%	11.00%	95.00%	
Loans to affiliated companies	43 637 613	-	-	-	**43 637 613**
Trade and other receivables (gross amount)	18 717 823	25 954	8 981	738 597	**19 491 355**
Expected credit loss	(746 353)	(519)	(988)	(701 666)	**(1 449 526)**

At 31 December 2019, ECL were determined applying the following expected credit loss rates:

(EUR)

	Current	Outstanding for over 30 days	Outstanding for over 90 days	Outstanding for 120 days	Total
Expected credit loss rate	0.07%	2.00%	11.00%	95.00%	-
Loans to affiliated companies	47 961 358	-	-	-	**47 961 358**
Trade and other receivables (gross amount)	7 546 297	5 015	874	731 294	**8 283 480**
Expected credit loss	(36 092)	(100)	(96)	(694 729)	**(731 017)**

Cash deposits

Credit risk arising from the *Company's* cash deposits with banks is managed by *the Group's* Finance Committee in accordance with the *Group's* Financial Management Policy. According to this policy, the *Company's* free resources may be invested only in deposits or money market funds. Before placing funds in banks (deposits or current accounts), the *Group's* Finance committee evaluates the credit ratings of banks and the interest rates offered.

The *Company's* cash balances with banks in accordance with the bank credit ratings assigned by Moody's:

(EUR)

RATING	31.12.2020	31.12.2019
Aa2	365	11 430
Aa3	3 081	2 000
A3	51 616 531	-
Baa1	-	13 319 645
Unrated*	7 681 577	8 093 004
Total	**59 301 554**	**21 426 079**

** No ratings assigned to the State Treasury and VAS "Latvijas pasts" (State-owned company).*

Liquidity risk

Liquidity risk is the risk that the *Company* will not be able to meet its financial obligations when they fall due.

The *Group's* Finance Committee manages the liquidity risk by maintaining adequate cash reserves and ensuring sufficient funding through granted loans, lines of credit, financial leases, etc. as well as continuously monitoring projected and actual cash flows and harmonizing the term structure of financial assets and liabilities.

The Company prepares a long-term cash flow forecast for one year and an operational cash flow forecast for four weeks to ensure that the *Company* has sufficient cash at its disposal to finance expected operating expenses, meet financial obligations, and make necessary investments.

The result of economic activity in 2020 is zero since *Latvijas dzelzceļš* has the right to receive financing for ensuring the financial balance of the state public railway infrastructure manager specified in regulatory enactments.

At 31 December 2020, the *Company's* current assets exceeded its current liabilities by 11 827 thous. EUR. EUR. Current liabilities include deferred revenue of EUR 19,341 thousand. The EUR related to the investment of EU projects and state budget funds in railway public infrastructure and are gradually written off in revenue, so there is a low risk that financial resources will be required to cover these commitments. The total liquidity ratio is 1.2, whereas excluding from current liabilities deferred revenue related to investments in the public railway infrastructure of EU projects and state budget funds, it would be 1.5. The *Company's* cash flows from operating activities are positive. In view of the above circumstances, we believe that the *Company* is financially sound and able to cover its current payments.

The concluded loan agreements with banks specify the financial covenants that *Latvijas dzelzceļš* must meet during the term of the agreement. At 31 December 2020 and the beginning of 2021, none of the non-current borrowings had breach of covenants.

In the tables below, the *Company's* financial liabilities by maturity based on the undiscounted amounts of financial liabilities specified in the agreements, including interest payments:

(EUR)

AT 31 DECEMBER 2020	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	VAIRĀK KĀ 5 GADI	TOTAL
Borrowings from credit institutions	7 799 172	32 187 996	104 986 233	19 234 576	164 207 977
Other liabilities (including other borrowings, debts to suppliers and contractors and other creditors)	12 833 881	6 851 128	7 173 143	1 547 035	28 405 187
Total	**20 633 053**	**39 039 124**	**112 159 376**	**20 781 611**	**192 613 164**

(EUR)

AT 31 DECEMBER 2019	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	VAIRĀK KĀ 5 GADI	RESTATED TOTAL
Borrowings from credit institutions	9 004 219	90 060 670	70 929 755	26 189 652	196 184 296
Other liabilities (including other borrowings, debts to suppliers and contractors and other creditors)	13 680 941	8 096 300	7 864 264	2 162 448	31 803 953
Total	**22 685 160**	**98 156 970**	**78 794 019**	**28 352 100**	**227 988 249**

31. FAIR VALUE CONSIDERATIONS

IFRS 13 lays down the value measurement technique hierarchy, based on whether the measurement technique uses observable market data or market data are not observable. Observable market data are obtained from independent sources. If market data are not observable, the value measurement technique reflects *the Company's* assumptions about the market situation.

The said hierarchy requires that observable market data must be used if they are available. In carrying out revaluation, *the Company* takes into consideration the relevant observable market prices, if possible.

The purpose of the fair value measurement, even in inactive markets, is to arrive at the price at which market participants would be willing to sell the asset or assume the liability at the measurement date under current market conditions.

To determine the fair value of a financial instrument, several methods are used: quoted prices or a valuation technique that includes observable market data and is based on internal models. Based on the fair value hierarchy, all measurement techniques are subdivided into Level 1, Level 2, and Level 3.

The fair value hierarchy level of a financial instrument level must be determined as the lowest level if a substantial part of the value is made up of lower level data.

In the fair value hierarchy, financial instruments are grouped into two stages:

1. Group the data of each level to determine the fair value hierarchy;

2. Assets are grouped at the lowest level, based on proportion of observable data used in determination of the fair value.

Quoted market prices - Level 1

Valuation technique at Level 1 uses unadjusted quotation prices in an active market, for identical assets or liabilities used where the quotation prices are readily available, and the price is representative of the actual market situation for transactions under fair competition circumstances. The *Company* has no Level 1 financial instruments.

At Level 2, the valuation technique uses market data

In the models used in Level 2 valuation technique, all relevant data, directly or indirectly, are observed on part of assets or liabilities. The model uses market data other than Level 1 prices included in the level but observed directly (i.e., price) or indirectly (i.e., derived from price).

The *Company's* cash and cash equivalents qualify as Level 2 fair value hierarchy.

Valuation technique when market data are used that are not based on observable market data – Level 3

In the valuation technique, when market data are used that are not based on observable market data (unobservable market data) are classified as Level 3. Data that are not readily available on an active market, because of the complexity of an illiquid market or a financial instrument are observable market data. Level 3 data shall be predominantly determined based on observable market data of a similar nature, historical observations or using analytical approaches.

All the *Company's* financial instruments, except for cash and cash equivalents, meet the Level 3 valuation technique.

Assets and liabilities presented at fair value

The carrying value of liquid and short-term (repayment term not exceeding three months) financial instruments, such as cash and cash equivalents, short-term deposits, short-term/current receivables and payables, approximately corresponds to their fair value.

The fair value of borrowings from credit institutions, financial leases and other non-current liabilities is assessed by discounting future cash flows by applying market interest rates. As the interest rates applied to borrowings from credit institutions, finance lease liabilities and other non-current liabilities are generally variable and do not differ materially from market interest rates, and the risk premium applied to the *Company* has not changed significantly, the fair value of non-current liabilities approximates their carrying amount.

32. CAPITAL MANAGEMENT

The Republic of Latvia owns 100% shares in VAS *Latvijas dzelzceļš*.

The Company's objectives in relation to capital management are to ensure the *Company's* ability to continue as a going concern and provide the return on capital set by the shareholder meeting. The Latvian Government has the right to take decisions related to the increase or reduction of the share capital of *the Company*, the payment of dividends or using them for the development of the *Company.*

For capital management purposes, the *Company* measures the leverage ratio. The *Company's* financial risk management policy does not set a minimum or maximum amount for this indicator. The concluded loan agreements with banks specify the financial ratios that the *Company* must comply with during the term of the agreement. Where the ratios are not met, then when preparing the annual report, letters are obtained from the banks that the lender will not demand repayment early. When preparing the short-term and long-term financial plan and budget, the *Company* considers the financial conditions set by the banks regarding the leverage ratio.

(EUR)

	31.12.2020	31.12.2019
Borrowings from credit institutions and other borrowings	158 828 300	189 187 358
Liabilities (including taxes)	48 299 367	37 895 566
Other liabilities	281 333 242	298 444 658
Total liabilities	**488 460 909**	**525 527 582**
Equity	351 235 052	318 838 980
Total liabilities and equity	**839 695 961**	**844 366 562**
Leverage ratio	58%	62%
Equity to total liabilities ratio	72%	61%

33. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY CURRENCY

The table below shows the Company's financial instruments by currency at 31 December 2020:

	EUR	USD EUR	OTHER CURRENCIES EUR	TOTAL EUR
Trade and other receivables, excluding advances	61 524 879	-	154 563	61 679 442
Cash and cash equivalents	57 925 648	1 688	1 374 395	59 301 731
Total financial assets	**119 450 527**	**1 688**	**1 528 958**	**120 981 173**
Borrowings from credit institutions	158 828 300	-	-	158 828 300
Trade payables and other liabilities, except advances	26 045 650	1 260	2 015 795	28 062 705
Total financial liabilities	**184 873 950**	**1 260**	**2 015 795**	**186 891 005**

The table below shows the Company's financial instruments by currency at 31 December 2019:

	EUR	USD EUR	OTHER CURRENCIES EUR	TOTAL EUR
Trade and other receivables, excluding advances	55 513 821	-	-	55 513 821
Cash and cash equivalents	21 427 196	996	65	21 428 257
Total financial assets	**76 941 017**	**996**	**65**	**76 942 078**
Borrowings from credit institutions	189 187 358	-	-	189 187 358
Trade payables and other liabilities, except advances	31 494 795	89	7 937	31 502 821
Total financial liabilities	**220 682 153**	**89**	**7 937**	**220 690 179**

34. CAPITAL COMMITMENTS

In the next reporting year, the *Company* expects to make capital expenditure in property, plant and equipment and intangible assets, of which major contracts entered but not yet completed are:

NAME OF COUNTERPARTY, SUBJECT OF CONTRACT	DATE OF CONTRACT	TERM OF EXECUTION OF THE CONTRACT	CONTRACT AMOUNT IN EUR
Association of entities *Belam-Leonhard Weiss Modernisation of Riga Railway Junction section Sarkandaugava-Mangali - Ziemelblazma*: construction	13.12.2019.	15.01.2023.	21 950 000
General partnership *Belam-Belss general partnership* Implementation of digital radio communication system	13.08.2020.	13.08.2022.	6 505 656

Construction of fixed assets and costs of construction objects in progress

(in EUR)

UNFINISHED CONSTRUCTION OBJECTS	CONSTRUCTION OBJECTS AT 31.12.2020.	BUDGTED COSTS 2020	PLANNED TO PUT INTO SERVICE
Changing the type of heating in real estate objects	329 297	30 000	2021
Renewal and upgrading of the contact line	257 869	736 000	2021
Latvijas dzelzceļš museum development and cultural objects	136 893	15 000	2023
Overhaul of railway technological buildings and external engineering networks	127 088	840 000	2025
Digitalisation and optimisation of the cargo traffic information - cargo movement management IS	108 490	100 000	2021
Overhaul of station buildings	73 350	500 000	2025
Development of an interoperable railway system in the Baltic states	70 167	827 000	2023
Safety measures to reduce the risk of railway accidents	66 760	170 000	2021
Modernization of the Riga Railway Junction section Sarkandaugava-Mangali-Ziemelblazma	60 980	11 700 000	2023
Development or modernization of IT technologies	41 053	287 000	2023
Introduction of digital radio stations	1 570	3 500 000	2023
Total	**1 273 517**	**18 705 000**	**x**

35. CONTINGENT TAX LIABILITIES

At any time within three years after the tax year, the tax authorities may conduct an audit of the accounts and calculate additional liabilities and penalties. The *Company's* management is not aware of any such circumstances that could result in a potential material liability in the future.

36. FUTURE LEASE INCOME

In 2020, income from operating leases was EUR 3 930 937. Operating lease income in the period from 1 to 5 years is expected to be at the level of 2020.

37. NUMBER OF EMPLOYEES

The average number of people employed by the *Company* in 2020 was 5 322 (in 2019: 6 345 employees).

38. TRANSACTIONS WITH RELATED PARTIES

The Company engages in transactions with the Ministry of Transport (100% shareholder of *Latvijas dzelzceļš*) and other commercial companies owned by the State. The largest transactions are carried out with AS "Pasažieru vilciens" (charges for the public use of the railway infrastructure for domestic passenger services, electricity distribution and sales, leasing of premises, subscribers' tickets) for EUR 13 526 thousand (in 2019: EUR 31 175 thousand) and VAS "Latvenergo" (purchasing of electricity) par EUR 9 698 thousand (in 2019: EUR 8 350 thousand). The mutual transactions are related to the principal activities of the relevant parties.

Transactions with subsidiaries:

(EUR)

COUNTERPARTY	2020 GOODS/SERVICES SOLD/PROVIDED	2020 GOODS/SERVICES PURCHASED / RECEIVED	2019 GOODS/SERVICES SOLD/PROVIDED	2019 GOODS/SERVICES PURCHASED / RECEIVED
SIA "LDZ CARGO"	73 889 943	8 286 103	104 556 786	12 043 393
SIA "LDZ ritošā sastāva serviss"	2 633 600	2 395 038	2 932 678	3 243 598
SIA "LDZ infrastruktūra"	974 382	2 710 440	674 248	3 454 270
SIA "LDZ apsardze"	356 804	5 017 491	345 966	5 059 187
AS "LatRailNet"	110 001	-	81 425	692 100
SIA "LDZ Loģistika"	346 352	-	350 362	-
SIA "Rīgas Vagonbūves uzņēmums "Baltija""	3 360	-	3 370	-

Receivables due from affiliated companies:

(EUR)

SUBSIDIARY	31.12.2020	31.12.2019
Short-term debts		
SIA "LDZ CARGO"	6 201 689	5 349 415
SIA "LDZ ritošā sastāva serviss"	4 838 465	4 557 368
SIA "LDZ infrastruktūra"	87 701	38 337
SIA "LDZ apsardze"	33 827	32 349
AS "LatRailNet"	7 883	6 950
SIA "LDZ Loģistika"	29 413	31 174
SIA "Rīgas Vagonbūves uzņēmums "Baltija""	329	331
Total	**11 199 307**	**10 015 924**
of which arose in December of the accounting year	6 697 273	5 692 149
Long-term loans		

SIA “LDZ ritošā sastāva serviss”	38 811 049	43 637 613

Payables to affiliated companies:

(EUR)

SUBSIDIARY	31.12.2020	31.12.2019
SIA “LDZ CARGO”	1 126 425	809 917
SIA “LDZ ritošā sastāva serviss”	230 519	457 129
SIA “LDZ infrastruktūra”	520 330	2 530 351
SIA “LDZ apsardze”	629 685	653 239
Total	**2 506 959**	**4 450 636**
of which arose in December of the reporting year	1 777 468	2 851 314

39. COVID-19 AND GOING CONCERN

Freight traffic trends in 2020 and 2021, along with current developments that could impact the global and regional economy, including the Covid-19 pandemic, suggest that freight traffic volumes will not improve significantly. There is a significant decline in freight volumes in 2020, plus the Covid-19 pandemic is having an additional negative impact on operations. Due to the virus, face-to-face meetings have had to be kept to a minimum and remote working has been used as much as possible. International passenger traffic has been completely suspended. The restrictions imposed by Covid-19 may have had an additional negative impact on freight volumes.

In response to the changes in freight volumes in the second half of 2019 and in 2020, the Group's crisis action plan included several measures that enabled overall costs to be reduced, and they will continue to fall. As a significant part of *Latvijas dzelzceļš* costs is related to employee resources - salary costs, review of organizational and technological processes – optimisation of the number of employees will continue in 2021.

In 2020, the *Company* approved the future directions of railway infrastructure development, freight transport and maintenance of rolling stock and ancillary services. The new business model of Latvijas dzelzceļš is based on the assets available to the *Company* – a high-quality infrastructure, a qualified team, and many years of experience, while significantly expanding the *Group's* existing areas of activity, the development of forwarding activities, including sea forwarding, road forwarding, warehousing services, additional finishing services, etc. Future priorities determined by the direction of cargo transportation and logistics business - cargoes to and from Belarus, Ukraine, special cargoes, close cooperation with port authorities and port terminals, unified logistics offer.

Following the completion of work on the *Group's* new business model and in accordance with Resolution No. A 1.1/2-1 of the shareholder meeting of 30 April 2020, *Latvijas dzelzceļš* has developed the *Company's* medium-term operational strategy until 2025, which has been approved by the Ministry of Transport and Trans-Port Coordination Centre. Work is continued to integrate the recommendations of these institutions into the strategy.

The main task of the *Company* is to ensure the management of the publicly used railway infrastructure and safe, high-quality, and effective railway and logistics services in the best interests of the Latvian state and national economy. To ensure this task, a Multi-Annual Agreement was concluded with the Ministry of Transport, which provides for the procedure of ensuring financial balance.

According to the Multi-Annual Agreement, VAS *Latvijas dzelzceļš* needs additional funds from the state budget in 2021 to ensure the financial stability of Latvijas dzelzceļš. Latvijas dzelzceļš will also need additional funding to fully offset the ineligible costs of providing passenger transport services that it provides in relation to the public service contract throughout 2021.

Although the financial stability payment will be recognised as income in the full amount, there is uncertainty as to the timing of receipt of the additional funds required by the *Company*. This uncertainty relates both to the funds to compensate for the costs of maintenance and restoration of the railway infrastructure in full for the provision of public transport services throughout 2021 in accordance with the requirements of the concluded Multi-Annual Agreement and to the funds to ensure the financial compensation payment to Latvijas dzelzceļš in accordance with the Multi-Annual.

Despite this uncertainty, the Management of *Latvijas dzelzceļš* believes that the going concern principle is applicable based on the implementation of *the Group's* new business model, the review of the contingency plan and the organisational and technological processes that will lead to cost reduction in the future. The main task of Latvijas dzelzceļš is to ensure the management of the state public railway infrastructure and safe, high-quality, and efficient railway and logistics services in the interests of the State, population, and the Latvian economy. Consequently, the financial statements have been prepared on a going concern basis, and no adjustments, including revaluations of assets and liabilities, have been made that would be required if the going concern principle had not been applied in preparing the financial statements.

40. EVENTS AFTER THE END OF THE REPORTING YEAR

In the period since the last day of the reporting year there have been no events which would have a material effect on the *Company's* financial position at 31 December 2020.

Chairman of the Management Board	M. Kleinbergs
Member of the Management Board	V. Balode - Andrūsa
Member of the Management Board	Ē.Šmuksts

The annual report was prepared by the Finance Directorate of *VAS Latvijas dzelzceļš*:
Head of Finance Division T. Labzova-Ceicāne

This document is signed electronically with secure digital signature and contains time stamp