

State joint stock company "Latvijas dzelzceļš"

Consolidated Annual Report for 2022

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Translation note: This version of Consolidated 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 Consolidated Annual Report takes precedence over this translation.

# INFORMATION ON THE GROUP'S PARENT COMPANY

| Name of the Group's parent<br>company                  | LATVIJAS DZELZCEĻŠ   |
|--|--|
| Legal status of the Group's parent company             | State joint stock company  |
| Registered office                                      | Gogoļa iela 3, Riga, LV-1547   |
| Uniform registration number                            | 40003032065  |
| Date of registration<br>In the Register of Enterprises | 01.10.1991   |
| Date of registration in the<br>Commercial Register     | 10.09.2004   |
| Place of registration                                  | Riga   |
| Date of issue of the certificate of registration       | 10.09.2004   |
| Shareholder  | The Republic of Latvia (100%)  |
| Holder of the shares                                   | Ministry of Transport of the Republic of Latvia<br>Gogola iela 3, Riga, LV-1743  |
| Supervisory body                                       | The Council of the Company   |
| Council  | Jānis LANGE, Chairman of the Council<br>Andris LIEPIŅŠ, Deputy Chairman of the Council<br>Reinis CEPLIS, a member of the Council<br>Andris MALDUPS, a member of the Council until 13.01.2023<br>Juris KALENUKS, a member of the Council from 02.02.2022 to<br>13.01.2023 |
| Managing body  | The Company's Board  |
| Board  | Rinalds PĻAVNIEKS, a member of the Board, Chairman of the<br>Board from 10.02.2023<br>Vita BALODE-ANDRŪSA, a member of the Board<br>Māris KLEINBERGS, Chairman of the Board until 09.02.2023<br>Ēriks ŠMUKSTS, a member of the Board until 14.01.2022                    |
| Auditors   | SIA "PricewaterhouseCoopers"<br>Uniform registration No. 40003142793<br>LZRA Commercial Company Licence No .5<br>Kr.Valdemāra iela 21-21<br>Riga, LV-1010<br>Latvia<br>Sworn auditor in charge<br>Ilandra Lejiņa<br>Certificate No. 168                                  |
| Reporting year   | 1 January 2022 – 31 December 2022  |

# Subsidiaries

| SIA "LDZ CARGO"  |   |
|--|---|
| Uniform registration number  | 40003788421   |
| Registered office  | 147 Dzirnavu iela, k-1, Riga, LV-1050               |
| Shareholding, %  | 100% shareholder – VAS "Latvijas dzelzceļš"         |
| Reporting year   | 01.01.2021 – 31.12.2022                             |
| SIA "LDZ ritošā sastāva serviss"   |   |
| Uniform registration number  | 40003788351   |
| Registered office  | Turgeņeva iela 21, Riga, LV-1050                    |
| Shareholding, %  | 100% shareholder – VAS "Latvijas dzelzceļš"         |
| Reporting year   | 01.01.2022 – 31.12.2022                             |
|  |   |
| SIA "LDZ infrastruktūra"   |   |
| Uniform registration number  | 40003788258   |
| Registered office  | Gogoļa iela 3, Riga, LV-1050                        |
| Shareholding, %  | 100% shareholder – VAS "Latvijas dzelzceļš"         |
| Reporting year   | 01.01.2022 – 31.12.2022                             |
| SIA "LDZ apsardze"   |   |
| Uniform registration number  | 40003620112   |
| Registered office  | Zasas iela 5-3, Riga, LV-1057                       |
| Shareholding, %  | 100% shareholder – VAS "Latvijas dzelzceļš"         |
| Reporting year   | 01.01.2022 – 31.12.2022                             |
|  |   |
| AS "LatRailNet"  | 40 40000 4000                                       |
| Uniform registration number  | 40103361063   |
| Registered office  | Turgeņeva iela 21, Riga, LV-1050                    |
| Shareholding, %  | 100% shareholder – VAS "Latvijas dzelzceļš"         |
| Reporting year   | 01.01.2022 – 31.12.2022                             |
| SIA "LDZ Loģistika"  |   |
| Uniform registration number  | 40003988480   |
| Registered office  | 147 Dzirnavu iela, k-2, Riga, LV-1050               |
| Shareholding, %  | 100% shareholder – VAS "Latvijas dzelzceļš"         |
| Reporting period   | 01.01.2022 – 31.12.2022                             |
| The subsidiary of SIA "LDZ ritošā sastāva<br>serviss" – SIA "Rīgas Vagonbūves uzņēmums<br>"Baltija"" (was merged into SIA "LDZ ritošā<br>sastāva serviss" on 30.12.2022) |   |
| Uniform registration number  | 40103419565   |
| Registered office  | Turgeņeva iela 14, Riga, LV-1050                    |
| Shareholding, %  | 100% shareholder – SIA "LDZ ritošā sastāva serviss" |
| Reporting period   | 01.01.2022 – 30.12.2022                             |
|  |   |

# MANAGEMENT REPORT

# ON THE ECONOMIC ACTIVITY OF LATVIJAS DZELZCEĻŠ GROUP IN 2022

# 1. AN OVERVIEW OF LATVIJAS DZELZCEĻŠ GROUP

Latvijas dzelzceļš Group (hereinafter "*Group*") manages the public-use railway infrastructure, provides railway transportation services and services related thereto.

The *Group* includes the *Group*'s parent company – state joint stock company "Latvijas dzelzceļš" (hereinafter "*Latvijas dzelzceļš*" or "*Company*"), SIA "LDZ CARGO", SIA "LDZ ritošā sastāva serviss", SIA "LDZ apsardze", SIA "LDZ Logistika", SIA "LDZ infrastruktūra", and AS "LatRailNet". Until 30.12.2022, SIA "LDZ ritošā sastāva serviss" had the subsidiary SIA "Rīgas Vagonbūves uzņēmums "Baltija"".

To ensure the progress and competitiveness of the *Group's* business directions, a unified strategy and objectives of the *Group* have been developed to ensure an optimal allocation of production and investment resources between the business directions and *Group* companies, coordination of decision-making and effective control over the implementation thereof. *Latvijas dzelzceļš* represents the interests of the *Group* at the international level.

Latvijas dzelzceļš is one of the largest companies in Latvia, through the economic activity of which it makes a significant contribution to the national economy by providing the use of the railway infrastructure for passenger and freight transportation.

The main task of *Latvijas dzelzceļš* is to operate the public-use railway infrastructure and provide safe, high-quality, and efficient railway services in the interest of the Latvian state and economy. At 31 December 2022, the extended length of the rail network managed by *Latvijas dzelzceļš*, as the public-use railway infrastructure operator, was 3,180 km, including station tracks and access roads technologically connected to it, as well as other infrastructure objects.

Latvijas dzelzceļš provides the public-use railway minimum access service package services and access to the public-use railway infrastructure connecting the railway infrastructure with service points service referred to in Section 12.<sup>1</sup>, Paragraph one of the Railway Law, freight wagon sorting and assembly services, wagon maintenance and inspection services, electricity distribution and sale services, rental services, information technology services, electronic communications services, as well as other services.

SIA "LDZ CARGO" provides domestic and international rail freight transportation services, traction services, as well as other services related to rail freight transportation. The company carries a wide range of commodities in containers and wagons, nearly all HKN (Harmonised Commodity Nomenclature) freight types. The company operates within the SMGS and CIM legal framework and uses the East-West and North-South transport corridors for freight transportation. Under the resolution of its sole shareholder VAS "Latvijas dzelzceļš" of 15 December 2022, in 2022 the share capital of the company was increased by the amount of reserves in the amount of EUR 34 205 482 with a view to increasing the company's solvency level, eliminating financial risks and achieving its strategic goals.

SIA "LDZ ritošā sastāva serviss" performs maintenance and repairs of the railway rolling stock, locomotive equipment and modernisation, provides mainline freight, shunting diesel locomotive and track machinery rental services, locomotive reserve fleet maintenance services, and sells fuel. The company also provides non-destructive testing laboratory services and sells spare parts for the rolling stock.

SIA "LDZ Loģistika" is engaged in providing marketing and sale of intermodal logistics services, attracting new customers to the Latvian transit industry and thus promoting the use of the public-use railway infrastructure.

SIA "LDZ apsardze" provides physical and technical security services to a wide range of objects, including real estate, critical railway infrastructure, and freight, as well as designing, installing, and maintaining security, fire safety, and video surveillance systems. It provides services to legal entities, including the *Group* companies, and to natural persons.

SIA "LDZ infrastruktūra" provided track machinery and plant rental services until 14 October 2022. Under the Cabinet of Ministers Order No. 13 "On the termination of the decisive influence of state joint stock company "Latvijas dzelzceļš" on and shareholding in limited liability company "LDZ infrastruktūra" and on the termination the of indirect decisive influence of state joint stock company "Latvijas dzelzceļš" on and shareholding in limited liability company "Rīgas Vagonbūves Uzņēmums "Baltija"", and on the termination of the direct decisive influence of limited liability company "LDZ ritošā sastāva serviss" on and shareholding in limited liability company "Rīgas Vagonbūves Uzņēmums "Baltija"", and on the termination of the direct decisive influence of limited liability company "LDZ ritošā sastāva serviss" on and shareholding in limited liability company "Rīgas Vagonbūves Uzņēmums "Baltija"" of 12 January 2022, the liquidation procedure was started in 2022 and is expected to be completed at the beginning of 2023.

AS "LatRailNet" performs the essential functions of a railway infrastructure manager. This company decides on the allocation of the rail infrastructure capacity, train paths, the framework for calculating the access charge, the determination, assessment, and collection of the charge, and cooperates with other providers of essential functions on matters of international connections.

Until 30.12.2022 SIA "LDZ ritošā sastāva serviss" owned the subsidiary SIA "Rīgas Vagonbūves uzņēmums "Baltija"". Under the Cabinet of Ministers Order No. 13 "On the termination of the decisive influence of state joint stock company "Latvijas dzelzceļš" on and shareholding in limited liability company "LDZ infrastruktūra", and on the termination of the indirect decisive influence of state joint stock company "Latvijas dzelzceļš" on and shareholding in limited liability company "LDZ infrastruktūra", and on the termination of the indirect decisive influence of state joint stock company "Latvijas dzelzceļš" on and shareholding in limited liability company "Rīgas Vagonbūves Uzņēmums "Baltija"", and on the termination of the direct decisive influence of limited liability company "LDZ ritošā sastāva serviss" on and shareholding in limited liability company "Rīgas Vagonbūves Uzņēmums "Baltija"" of 12 January 2022, as a result of the reorganisation, the latter was merged into SIA "LDZ ritošā sastāva serviss". On 30 December 2022, under the decision of the Register of Enterprises of the Republic of Latvia, an entry was made in the Commercial Register on reorganisation by merger, whereby the company was merged into SIA "LDZ ritošā sastāva serviss".

In order to improve corporate governance practices and develop an understanding of social responsibility in the *Group*, as well as to strengthen a sustainable yet innovative mindset in the traditionrich railway sector, since 2016, *Latvijas dzelzceļš* has been producing a sustainability report in accordance with the internationally recognised guidelines of the Global Reporting Initiative (GRI standard). Furthermore, each year, the *Group* companies participate in the Sustainability Index assessment organised by the Institute of Corporate Sustainability and Responsibility to assess their performance in terms of sustainability. Based on the assessment of the Group's performance in terms of sustainability. Based on the assessment of the Sustainability Index experts awarded the Gold category to *Latvijas dzelzceļš*. The ratings awarded to its subsidiaries: SIA "LDZ CARGO" was awarded the Platinum category of the Sustainability Index, SIA "LDZ ritošā sastāva serviss" was awarded the Gold category.

Given freight transportation volume trends, the review of the *Group* companies' processes launched in previous years continued in 2022, which also led to a reduction in the staff levels.

In 2022, the *Group's* average number of employees was 6 482, a decrease of 669 employees compared to 2021.

# 2. OPERATING PERFORMANCE

The *Group's* consolidated revenue in 2022 was EUR 254 788 thousand. Compared to 2021, consolidated revenue has increased by EUR 5 611 thousand or 2.3%.

Revenue from freight transportation which accounts for the largest share (49.4%) of the *Group's* consolidated net turnover, has increased by EUR 3 482 thousand or 2.8% compared to 2021.

In 2022, the total train-km (10 752 thousand train-km, including technological train-km, but excluding train-km run by *Latvijas dzelzceļš* for its own needs) increased by 0.7% compared to 2021, consisting of an increase of 4.1% in passenger transportation, and a decrease of train-km of transported freight of 3.8%. Railway freight transportation in the Republic of Latvia is mostly directed from the eastern borders of the country to Latvia's three largest ports - Riga, Ventspils and Liepaja via the major railway hubs in the eastern part of Latvia at Daugavpils and Rezekne, forming an East-West transit corridor, connected by a railway line between the country's northern and southern borders, and also interconnected by regional lines.

In 2022, 21 588 thousand tonnes of freight were transported by rail. This is a decrease of 375 thousand tonnes or 1.7% compared to 21 963 thousand tonnes of freight transported by rail in 2021. The largest share in freight transport - 65.2% - was accounted for by import transport, the volume of which was 14 072 thousand tonnes in 2022. This is a 4.4% increase of compared to last year.

The major share of freight transportation volumes is accounted for by coal (22.2%), oil and petroleum products (20.2%), grain, grain processed products, seeds and fruit (20%). Fertiliser freight volumes accounted for 4.1% in total freight, whereas the share of timber and timber accounted for 4.5%. The share of other types in freight transported in 2022 was 29%. The volume of ore transported in 2022 amounted to 1,979 thousand tonnes, chemical commodities – 716 thousand tonnes, and minerals – 652 thousand tonnes.

The majority of the *Group*'s revenue is generated by SIA "LDZ CARGO", a significant transport and logistics sector company in Latvia.

The majority of freight transported by SIA "LDZ CARGO" came from Russia, i.e., 51.8%. The share of other countries in the import and land transit were as follows: Kazakhstan – 23.2%, Lithuania – 14.2%, Belarus – 9.4%, Uzbekistan – 0.8%, Estonia – 0.2%, Ukraine – 0.2%, and others – 0.2%.

In 2022, 15 694 thousand passengers were transported on the public-use infrastructure wide-gauge railway lines, an increase of 40.2% compared to the previous year.

Compared to 2021, the *Group's* consolidated revenue from the use of infrastructure has decreased by a total of EUR 2 024 thousand or 11.2%, revenue from freight carriers outside the Group have decreased, whereas revenue from passenger carriers have increased.

The *Group's* loss after tax is EUR 2 368 thousand. The *Group's* performance for 2021 was a profit of EUR 3 909 thousand. The *Group's* consolidated equity as at 31 December 2022 was EUR 395 460 thousand, i.e., by EUR 2 368 thousand or 0.6% less compared to 31 December 2021.

The *Group* companies pursue prudent liquidity risk management, ensuring that adequate credit resources are available to settle liabilities when they fall due. As at 31 December 2022, the *Group's* current assets exceeded current liabilities by EUR 27 194 thousand. This results in an overall liquidity ratio (current assets to current liabilities) of 1.3. Current liabilities include deferred income of EUR 19 360 thousand, related to the European Union (EU) projects and the state funding related to investments in public-use railway infrastructure, so there is a low risk that financial resources will be needed to cover these liabilities. The total liquidity ratio, excluding deferred income related to investments in public railway infrastructure funded from EU projects and the state budget, was 1.5. At 31 December 2022 and at the beginning of 2023, none of the long-term borrowings were in default.

Despite declining railway freight volumes, the *Group* continued to ensure the quality of infrastructure and services provided and the relevant safety level. In 2022, the Group's capital expenditure totalled EUR 25 792 thousand (excluding intra-Group capital expenditure). Financial resources have been invested in the renewal, modernisation and acquisition of property, plant and equipment, intangible investments, and the construction of new objects. Of this the most significant were:

- The capital expenditure of *Latvijas dzelzceļš* in 2022 was EUR 19 020 thousand. Capital repairs totalled EUR 9 997 thousand, EUR 1 419 thousand were invested in the renewal of the existing IT systems, EUR 6 881 thousand were invested in infrastructure development. Other renovation related investments totalled EUR 723 thousand.
- The capital expenditure of SIA "LDZ CARGO" in 2022 totalled EUR 5 250 thousand which was invested in the renewal, modernisation and acquisition of property, plant and equipment. The company implemented its long-term investment project by purchasing 60 wagons for EUR 2 850 thousand in March 2022.

# 3. OBJECTIVES AND FUTURE DEVELOPMENT

With the declining freight transportation volumes, the *Group* continues its efforts to improve its operational efficiency by reviewing business, organisational and technological processes in order to increase the *Group's* operational efficiency and reduce costs, as well as to ensure the *Group's* competitive and sustainable operations in the future.

As a significant part of the costs is employee-related (personnel costs), the staff reduction started by the *Group* in the past years will be continued in 2023 with a review of the organisational and technological processes.

To facilitate the implementation of the *Group's* business model, the *Group* companies have developed business plans until 2025 and action plans for the period until 2025.

The *Group's* business model is based on its existing assets - quality infrastructure, competent team and long-standing experience, while significantly expanding the *Group's* existing areas of activity by developing forwarding activities, including sea forwarding, road forwarding, warehousing services, additional after-treatment services, etc.

Future priorities for the freight transportation and logistics business area have been identified: freight transportation, specialised freight, close cooperation with port authorities and port terminals, a unified logistics offer.

In order to increase the efficiency and productivity of the *Group* companies, emphasis will continue to be laid on the thoughtful use of the human resources and material resources to reduce costs. Consequently, technological processes and functions will continue to be reviewed, and the *Group's* management options will be evaluated.

Latvijas dzelzceļš and the country's transport and logistics sector are in direct competition with their nearest neighbouring countries (Lithuania and Estonia) when it comes to attracting freight transportation to the Latvian transit corridor. The efficiency of infrastructure services will be one of the decisive factors in the competition for freight transportation by rail.

In 2023, the main priorities and objectives of the *Group* and *the Company* will relate to substantially increasing the efficiency of the companies' operations and regaining and strengthening financial stability, as well as implementing and stabilising newly developed organisational and technological processes.

With the review of the *Group*'s business lines and efficiency gains in 2023, there will be a significant focus on diversifying target markets and freight segments, attracting freight traffic to new markets, developing new services, etc.

Alongside these objectives, *the Group* will also actively work to develop a comfortable and efficient infrastructure for passengers and will continue to promote safety on and along the tracks.

In light of intensive change processes taking place in 2022, the *Group's* management team will ensure effective financial and human resources management, as well as comprehensive and transparent communication both within the company and with customers, business partners, stakeholders and the general public.

 The strategy and action plan of Latvijas dzelzceļš were accepted under Decision No.VL-34/240 of the Board of Latvijas dzelzceļš on 05.07.2021 and approved under Decision No. PA1.2./8-6 of the Board of Latvijas dzelzceļš of 14.07.2021.

The overall strategic goal of *Latvijas dzelzceļš* has been approved under the Cabinet Order No. 421 of 16.06.2021 in the wording as follows: "Ensuring efficient, safe and sustainable management of railway infrastructure, offering competitive logistics, repair and maintenance of railway vehicles, security services for strategically important objects, while promoting environmentally friendly development of rail transportation".

In 2021, the Infrastructure Development Concept for 2021-2035 was developed and approved under Board Decision No. VL-9/95 dated 01.03.2021 and accepted for information under the Council Decision No. PA 1.2 13-13 of 18.03.2021. It provides an overview of the current infrastructure and related aspects of the *Company's* operations and outlines the strategic development vision and main directions of *Latvijas dzelzceļš*, which are directly reflected in the developed medium-term operational strategy of *Latvijas dzelzceļš*, the projects aimed at infrastructure development and modernisation and in other documents.

With a view to the future development and competitiveness of *Latvijas dzelzce*/š along with regular capital expenditures aimed at maintaining the quality and safety of the infrastructure, to the extent that financial resources permit, work is being continued on the implementation of the ongoing project co-financed by the Cohesion Fund "Modernisation of Riga railway junction – Sarkandaugava – Mangali - Ziemelblazma section", for the construction of which a contract was signed in 2019. As part of the project, a second train track will be constructed in the Mangali - Ziemelblazma section, the signalling system will be upgraded consistently with the current technology, and two-level pedestrian crossings will be built for the purpose of improving safety. In 2021, as part of the project, the design works were completed, and construction works began. Construction works continued in 2022. The project will be completed in 2023.

In 2021, the implementation of the project "Modernisation of the railway passenger infrastructure" co-financed by the Cohesion Fund started; the project provides for the construction of elevated platforms for passengers at 48 stations and stops, enhancing passenger and train safety, passenger service quality and comfort level as well as reducing environmental impact. In 2021, contracts for the

construction works were concluded. The construction supervision contract was signed in 2022. The project included design works and construction works on the Riga - Jelgava line. In 2022, as part of the project, the contracts "Rollout of the unified information notification and video surveillance system" and "Modification of the microprocessor centralisation systems as part of the project "Modernisation of the railway passenger infrastructure" were signed, and the tender "Supply, installation and integration of digital information displays" was announced.

In the middle of 2022, the implementation of two more EU co-financed projects was started.

For the project "Installation of fences and pedestrian crossings at the railway infrastructure facilities", as part of which safety fences and crossings would be constructed at the most dangerous places with busier rail traffic and pedestrian flows, and the risk of accidents is greater, contracts for construction work and construction supervision have been concluded. Design works started in 2022. The project provides for the works to be carried out on railway sections: Zasulauks – Lacupe, Brasa – Sarkandaugava – Mangali – Ziemelblazma, Ciekurkalns – Jugla, Tornakalns – Tiraine, Skirotava station.

The project "Modernisation of the railway infrastructure to increase train speed" that aims to increase train speed to 140 km/h by carrying out modernising works on the Riga - Aizkraukle and Riga - Jelgava lines, enhancing traffic safety at level crossings and eliminating speed limiting points for trains. Construction and construction supervision contracts were concluded in 2022. Design works have been started.

In cooperation with Estonian company AS "Eesti Raudtee", dynamic work is also being carried out on the project "Developing an interoperable rail system in the Baltic States". The project is co-financed by the Connecting Europe Facility. The project aims to ensure a minimum required level of information and exchange between railway companies (carriers, infrastructure managers, wagon owners). The project solutions provide for: i) an analysis of the feasibility of launching telematics applications for passengers and freight (legislation; business model; processes; system architecture); (ii) development of an overall system concept; (iii) rollout of a prototype real-time rail traffic management system; (iv) development of technical specifications and acquisition/rollout of systems.

A number of preparatory works have been completed in preparation for the Riga city/ suburban rail power network modernisation project, expected to be implemented as part of the Recovery and Resilience Facility. Overall, the project aims to optimise the zero-emission railway infrastructure at the Riga junction and on the Riga - Tukums line, as well as to extend the electrified Zasulauks - Bolderāja zone through the replacement and construction of the overhead network, thus ensuring migration to the 25 kV electrification system in the future, which is more efficient and sustainable system compared to the currently used 3.3 kV system. At the project preparation stage, the initial environmental impact assessment of the intended activity was received from the State Environmental Service on 19 May 2022, according to which an environmental impact assessment does not apply to the intended activity. By concluding a contract with SIA Ernst & Young Baltic, the Ministry of Transport has finalised the work entailing the uniform cost-benefit analysis for the intended activities related to the modernisation of the overhead network and the extension of the electrified zone, and the project intended by Road Transport Administration for the procurement of battery trains. Currently, *Latvijas Dzelzceļš* is preparing the procurement documents. The project is expected to be completed by the first quarter of 2026.

Being aware of the challenges of attracting a qualified workforce in the forthcoming years, *Latvijas dzelzceļš* not only develops the continuing education opportunities which are offered by the Company's Training Centre, but also participates in the evaluation of the railway's study programmes in cooperation with the Riga Technical University, as well as in the work of the expert group evaluating the study programme. The study programme "Railway Engineering" will not only help develop the technological capacity in the *Company* and the *Group* but will also *provide the Group* with the necessary highly qualified specialists in the future.

 In 2022, several investment projects were implemented in SIA "LDZ CARGO", including investments for purchasing of 60 new semi-wagons and for modernisation and capital repairs of the rolling stock, with investments totalling EUR 5.2 million.

For the convenience of customers, personal accounts were set up in the Freight management information system (hereinafter "FMIS"), which is a monthly summary of each customer's financial activity related to freight transport, i.e., freight invoices, invoices for ancillary services and customer payments. Customers can review their personal account balance online in the FMIS at any time. In the third quarter of 2022, the development of the wagon sheet in the FMIS started. It is expected to be completed by the end of the first quarter of 2023.

Customs declaration numbers are received from the Electronic customs data processing system (ECDPS) and reflected in the FMIS system. From 18 July 2022, paper transit declarations are no longer attached to the transport documents (electronic waybills).

To improve the process of transferring wagons between carriers, the current version of the waybills is available via the IS Freight settlement information system (hereinafter "C-FSIS"). The technology for processing the C-FSIS waybill has been improved in cases where SIA "LDZ CARGO" (hereinafter also "LDZ CARGO") operates as a carrier on the border section, while other carriers operate on the other sections.

One of the most important strategic goals for 2022 is to shift freight transport from road to rail. To achieve this goal, a market analysis was carried out in the first half of 2022, gathering information on freight loading and unloading opportunities for further transportation by rail and identifying freight segments with significant road freight traffic to/from port terminals.

As SIA "LDZ CARGO" received the unified EU Safety Certificate at the end of 2021, allowing transport on the entire territory of Lithuania and Estonia, active work was done in 2022 to start freight transport in Estonia. Foreign market research and customer mapping was carried out, and active communication and transportation planning with potential customers in Estonia took place at the end of the year. By the end of 2022, the locomotives of SIA "LDZ CARGO" were ready for operation and equipped with all necessary safety devices according to the requirements of AS "Eesti Raudtee".

With the aim of developing cooperation in the field of container and container freight transport in test operation, transportation on the route from Estonia to Lithuania and from Lithuania to Estonia was carried out in September 2022 as part of the "Amber Train" project.

In 2022, the company continued to digitise its internal processes. In order to improve railway safety, register railway accidents, investigate safety incidents, prevent potentially dangerous situations or prevent physical access to the property of SIA "LDZ CARGO" and facilitate the work of drivers in manoeuvring locomotives, the Locomotive video surveillance system (LVSS) was put into operation in 2022. 47 of the company's locomotives were equipped with it.

In the first half of 2022, work continued on developing the requirement specifications for the Electronic locomotive information system (ELIS) software. Testing of the system began in the second half of the year. The system is being developed to digitise the processing of route sheets and thus facilitate the work of locomotive drivers and depot accountants. It is planned to put the system into permanent operation in the first half of 2023.

An electronic briefing logbook was developed and introduced in test operation in 2022, with deployment planned for 2023. The aim of digitising the briefing process is to save staff time by eliminating physical contact and saving paper resources. Also in 2022, an electronic customer complaint log was developed and put into operation, which enables the structuring of customer complaints and their analysis.

 In 2023, SIA "LDZ ritošā sastāva serviss" will continue active cooperation with foreign customers and business partners in the field of railway rolling stock repairs.

In 2023, SIA "LDZ ritošā sastāva serviss" will continue to participate in public and private procurement procedures and tenders for locomotive and wagon repair, including unit repair, in Lithuania, Estonia and Poland. In parallel, daily monitoring is carried out by analysing procurement and advertising portals in other countries.

The company continues to explore its options for entering into cooperation agreements with other foreign business partners to better represent its interests abroad, which may ensure the company's increased competitiveness in foreign markets. Potential foreign business partners are also approached on behalf of the company's management, both in writing and in personal discussions.

The activity of the company's Track plant repair centre is being expanded by finding business partners for maintenance and repair services, as well as by offering track plant rental services to the companies that maintain the railway infrastructure in Latvia, Estonia and Lithuania.

Given the geopolitical situation in the context of Russia's war against Ukraine, SIA "LDZ ritošā sastāva serviss" could not use the certificate obtained in 2021 - "CEPT ACY", which enables the provision of locomotive repair services to owners of locomotives based in Ukraine. International media portals, public procurement portals are continuously monitored to be informed about the developments and normalisation of the situation. The company must be ready to provide these services to Ukraine as soon as they are needed.

The war has also made the supply of spare parts exceedingly difficult. Solutions are being actively sought to obtain spare parts from manufacturers in the European Union. Wholesalers who buy and sell locomotive and wagon spare parts from companies in the European Union are being approached.

In 2023, the company will continue to actively cooperate with other railway companies in the EU to implement the locomotive modernisation project.

In 2023, the company plans to further optimise production processes, achieve high efficiency and fully utilise the company's existing capacity and labour resources, digitise warehouse processes and improve the ordering process and accounting. The company plans to continue the process of renovating and modernising production facilities and buildings, as well as raising the company's profile and participating in exhibitions and other railway-related events.

• The objectives of **SIA** "**LDZ Loģistika**" are increase transport volumes by developing intermodal and multimodal logistics offerings, building strategic partnerships, developing existing and new markets, attracting new customers and new freight flows for the Latvian transit industry, and developing marketing and sale of logistics offerings. In addition, the company plans to promote domestic rail freight transport, facilitate the use of public-use rail infrastructure and create development opportunities to support the Latvian economy. Achieving the goals also requires the accumulation of skills for logistical excellence, experienced and qualified employees.

The business plan of SIA "LDZ Loģistika" until 2025 is based on the company's vision as a strong player in the logistics industry. The main priorities for the period until 2025 are cooperation with ports, terminals for sea carriers and road carriers, increasing freight volumes, increasing the share of container transport, developing the 3PL service basket and developing freight corridors for both international transport and regional or domestic freight traffic.

 SIA "LDZ apsardze" operates in accordance with the Group's strategy and its objectives, which envisage a change in the business model of the Group and its companies.

The very purpose of the company (Mission) is to provide high quality, modern and competitive security services to the Group's companies and customers outside the Group through sustainable management and growth of the company's investments.

In 2022, the company achieved its primary financial objective of paying a dividend to the company's shareholder of EUR 100 thousand. The positive growth and operational profitability in 2022 will ensure that the target will also be achieved in the coming year.

# 4. RESEARCH AND DEVELOPMENT ACTIVITIES

In 2022, the *Group* companies spent EUR 1 367 thousand on research and development (R&D), of which EUR 1 352 thousand were spent on internal research and development for the *Group* companies. External expenditure on research and development amounted to EUR 15 thousand. In 2021, total spending on research and development was EUR 1 812 thousand, of which EUR 1 616 thousand were spent on internal research and development for the *Group* companies, whereas external research and development to EUR 196 thousand.

Latvijas dzelzceļš spent EUR 1 342 thousand on research and development in 2022, of which internal R&D spending amounted to EUR 1 327 thousand. Expenses incurred on the R&D works contracted out to other institutions, companies and organisations totalled EUR 15 thousand.

SIA "LDZ CARGO" spent EUR 25 thousand on research and development in 2022, all of which was for internal research and development. In 2022, extensive work was carried out on identifying potential customers and market research not only in Latvia but also in Estonia, which led to the conclusion of several cooperation agreements for transport in Latvia, and the launch of the first transport services in Estonia with LDZ CARGO as the transport company is planned for the beginning of 2023. Starting business in another country, which is a new development step for LDZ CARGO, required an indepth study of Estonian and international legislation.

Evaluating the possibilities of expanding the transport cooperation with other carriers in European countries where the rules of the International Committee for Transport by Rail (CIT) are applied, an analysis and definition of the requirements for the electronic consignment note of the International Rail Freight Contract (CIM) has been initiated and integrated into the CPS system.

Being aware that the company's development and future business activities are not possible without attracting young and qualified employees, in 2022, LDZ CARGO engaged in a joint project with

Riga Technical University "Strengthening the academic staff of Riga Technical University in areas of strategic specialisation", offering internships for RTU employees. Cooperation with Riga Technical University was also developed through the provision of professional internships for students of degree programmes in logistics, customs and technical transport, as well as cooperation in the development of scientific research by students on topics related to both technical support for LDZ CARGO and business development issues.

In 2022, LDZ CARGO also focused on developing and improving its customer service system by conducting interactive training on the subject for managers responsible for customer service, developing best practise standards for sales at LDZ CARGO.

# 5. NON-FINANCIAL STATEMENT

In 2022, Latvijas dzelzceļš Group employed an average of 6 482 people, some of whom live and work in regions, including cities and towns, where relatively few jobs are available in the market. Employment with the *Group* enables these employees to provide for their families, pay taxes to secure their future and the needs of the municipal budget, and make other indirect contributions to the Latvian economy.

The employees of Latvijas dzelzceļš Group, working both in the parent company and in the subsidiaries, provide maintenance and development of the publicly accessible railway infrastructure, passenger and freight transport, maintenance and repair of rolling stock and other services, thus making a significant contribution to the accessibility of public transport and to the general mobility of the Latvian population and freight transport.

The corporate values of Latvijas dzelzceļš Group, as well as the principles of professional conduct and ethics ensuring the prevention of possible corruption, conflicts of interest, illegal use of insider information and other illegal and unethical behaviour, are set out in the Code of Ethics of Latvijas dzelzceļš Group.

The Code of Ethics of Latvijas dzelzceļš Group summarises the best practices and general principles of professional ethics and employee conduct to be followed in the business practice of the *Group's* dominant company VAS "Latvijas dzelzceļš" and its dependent limited liability companies.

One of the fundamental ethical principles enshrined in the Code of Conduct and implemented on a daily basis is the principle of equality, i.e., employment relationships are not based on preference for race, colour, gender, age, religion, political or other opinion, national or social origin, wealth, marital status, sexual orientation or other factors, but solely on professional criteria.

Neither does the *Group* discriminate between employees on the grounds of nationality. The Company does not keep a record of the number of employees of a particular nationality. It employs people of different nationalities: Latvians, Russians, Belarusians, Poles, Ukrainians, Lithuanians and employees of other nationalities.

Railway operations are also closely related to environmental factors and the impact of the industry on the quality of life of the population. One of the current issues is the noise of rail transport, especially freight transport, and its impact on the health and well-being of people living near the railway line. In order to reduce the impact of noise and vibrations, the Action plan for noise reduction of VAS "Latvijas dzelzceļš" 2023 was developed and is currently being implemented. It defines the tasks and objectives for noise reduction on railway lines with a traffic intensity of more than 30 000 trains per year.

Latvijas dzelzceļš is a public-use railway infrastructure manager whose task is not only to take care of the quality, safety and development of the railway, but also to preserve the testimonies of railway history that tell the story of the railway industry in Latvia from its beginnings. The Latvian Railway History Museum is the main preserver of the railway heritage.

Latvijas dzelzceļš Group has established the Personnel management and remuneration policy which is binding on the Group's dominant company, VAS "Latvijas dzelzceļš", and its subsidiaries. The policy aims to establish common guidelines, policies and general principles of personnel management, development and remuneration, the main areas of responsibility and activity of the *Group*. The main objective of the remuneration policy is to motivate employees to achieve the strategic objectives and to encourage everyone to contribute to the improvement of their work performance. At the same time, the policy aims to ensure that employees receive fair and competitive remuneration for their work and contribution to the achievement of the *Group's* objectives, and to promote the development of employees' competencies. The fundamental principles of the *Group's* remuneration system are fairness, transparency, competitiveness and relevance to financial performance, appropriateness and compliance with external legislation.

In order to regulate the conduct of employees in their dealings with suppliers, business partners, as well as in relation to the organisation of business trips and the acceptance of gifts, and to establish measures in the event of suspicion of possible corruption or fraud, the *Group* has established the Fraud prevention policy, which is closely linked to the national regulatory framework, i.e., Cabinet Regulation No. 630 Regulation on the general requirements for the internal control system for the prevention of corruption and conflicts of Interest in public institutions" and the Whistleblowing Law.

One of the *Group's* strategic objectives is to reduce the number of people injured and killed in collisions with trains. The Group's Road Safety Policy is therefore one of the key elements of the *Group's* safety management system. The policy aims to establish common road safety management principles and procedures, considering the requirements of road safety laws and regulations, in order to prevent the occurrence of unacceptable risks. In addition to improving infrastructure safety, one of the ways is to inform and educate the public about safe behaviour near railway infrastructure and when crossing the tracks.

Every year VAS "Latvijas dzelzceļš" organises safety campaigns to inform and educate the public about safety near the railway. The level of awareness of the Latvijas dzelzceļš safety campaign 2022 was 71% among the Latvian population surveyed. Representatives of Latvijas dzelzceļš also delivered safety lessons in schools and preschools, where children were taught in an age-appropriate way how to behave properly and safely near the railway and on the train, and they learned many interesting things about the railway.

The non-financial objectives for 2022 set out in the Medium-Term Operational Strategy for 2021-2025 of VAS "Latvijas dzelzceļš" were as follows:

| STRATEGIC<br>DIRECTIONS | PERFORMANCE INDICATORS   | 2022 BUDGET | 2022<br>ACTUAL |
|-------------------------|--|-------------|----------------|
| Governance              | Railway infrastructure operating expenses per km of track, in thous. EUR         | 59.5        | 58.0           |
| Governance              | Extended length of the main tracks, km   | 2 216.0     | 2 213.0        |
|                         | Number of serious accidents per million v-km                                     | 1.2         | 1.4            |
|                         | Average speed of passenger trains, km/h  | 55.0        | 55.4           |
| Mobility                | Rail passenger transport as a share of total public transport, %                 | 9.0%        | 9.7%           |
|                         | SIA "LDZ CARGO" market share in the Baltics, %                                   | 24.1%       | 34.0%          |
| Commercial activity     | Freight transported by rail on the LDz infrastructure<br>network, million tonnes | 22.8        | 21.6           |
| Sustainability and      | Sustainability index, level  | Gold        | Gold           |
| human capital           | Employee satisfaction rating, %*   | 75.0%       | -              |

\* The results for 2022 were not yet summarised because the employee satisfaction survey was carried out in February 2023.

The non-financial objectives related to the achievement of freight volumes were not met as various economic and geopolitical processes in 2022 led to the continuation of a downward trend in freight volumes that started in previous years. The decline in freight volumes was significantly affected by the international sanctions imposed on Russian and Belarusian companies, people and commodities following Russia's invasion of Ukraine.

Information on the development, performance and financial position of *the Group* is provided in the preceding paragraphs of the Management report and in the Notes to the annual report.

# 6. INFORMATION ON THE KEY RISKS RELATED TO THE AREAS OF CORPORATE SOCIAL RESPONSIBILITY

# Road safety risks

As a public-use railway infrastructure manager, VAS "Latvijas dzelzceļš" is responsible for managing the railway infrastructure control and safety systems and actively manages the risks related to railway traffic safety. The safety management system established by VAS "Latvijas dzelzceļš" has been integrated into the management and operational processes and includes special procedures necessary for the safe development, maintenance, and operation of the railway infrastructure, including procedures for maintaining and operating the traffic management and signalling system and for managing staff competences.

In order to monitor road safety, an internal Road safety monitoring system has been established within the framework of Latvijas dzelzceļš *Group's* road safety policy, which is a set of periodic preventive measures. The main tools of the system are monitoring of the road safety situation, railway infrastructure surveys, various inspections, technical audits, technical training of railway staff and road safety briefings.

In accordance with Latvijas dzelzceļš *Group's* risk management policy, regardless of the assessment of individual risks and the control measures taken, in making decisions, the Group has set out that road safety risks are a priority risk and that measures to mitigate and control road safety risks should be taken as a priority.

### **Environmental risks**

The companies of Latvijas dzelzceļš Group manage risks to ensure compliance with EU and national laws, including those relating to climate control and environment, and to integrate these requirements into the operations of *Latvijas dzelzceļš*, as well as to ensure compliance with the global climate requirements. The existing environmental risk management includes the adoption of external regulation in the Environmental and energy management policy of Latvijas dzelzceļš Group and the resulting regulations, the Environmental and energy management programme:

- The Group has implemented a certified environmental and energy management system (continuous analysis of significant areas of energy consumption and environmental impact), in accordance with the requirements of the standards ISO 50 001:2018 and ISO14 001:2015.
- Environmental monitoring is carried out on a regular basis (for ground and groundwater, wastewater and rainwater, noise levels and air pollutant emissions), surveying of sites contaminated with petroleum products, including historically contaminated sites, investigations and remediation measures are taken.
- Employees are regular trained to improve and test their knowledge and to keep them updated of the latest Company developments in the areas of environmental and energy management.
- Disaster defence and prevention trainings are organised with other government agencies.
- The Group promotes an environmentally friendly mindset among its employees, thus making an indirect contribution to environmental protection that goes beyond its business activities.

#### Workplace risks

In ensuring the primary activities of the *Group* companies work needs to be carried out in close proximity to tracks, i.e., employees work in hazardous conditions, and each of them must strictly comply with all occupational health and safety requirements, including the wearing of high visibility protective clothing and exerting constant vigilance over the movement of the rolling stock within the defined work area. Risk management is ensured in accordance with the Occupational safety policy of Latvijas dzelzceļš Group. The *Group* companies maintain and improve their occupational health and safety systems and regularly assess workplace risks.

In ensuring occupational safety and health, the focus is on preventive measures to avoid (prevent) workplace risks that endanger the safety of employees and harm their health. In practice, the "Model content and structure of the occupational health and safety instructions" (Annex 2 to Cabinet Regulation No. 749 of 10.08.2010) served as a basis to develop the occupational health and safety instructions that cover the safe sequence of starting, performing and finishing work, as well as occupational safety requirements in emergencies.

# Risks of corruption and conflicts of interest

The companies of Latvijas dzelzceļš Group adhere to the anti-corruption principles and principles for preventing conflicts of interest in their daily work. The *Group* has established Anti-fraud policy that provides a framework for an internal control environment to ensure the prevention of fraud, corruption, and conflicts of interest, the functioning of a whistleblowing system and compliance with laws in day-to-day business.

The Code of Ethics of Latvijas dzelzceļš lays down the general principles of professional ethics and employee conduct. By signing the agreement, the *Group's* business partners confirm that they have familiarised themselves with the General principles of business conduct for the *Group's* business partners, published on the *Group's* website <u>www.ldz.lv</u>, comply with them, and commit to comply strictly

with them in the future as well as ensure that their employees and subcontractors involved in the performance of the contract also comply with them.

# **Compliance risks**

Latvijas dzelzceļš Group companies manage the risks and take the necessary measures to ensure operational compliance. The *Group* has adopted a unified legal provision policy to ensure consistent and appropriate application of applicable legal requirements. The main business of the *Group's* companies is organised in accordance with the requirements of external laws, including international sanctions legislation and amendments thereto. To manage compliance risks, procedures are revised, and existing internal controls are updated in line with the changes.

# **Reputational risk**

The companies of Latvijas dzelzceļš *Group* take measures to prevent and mitigate reputational risks arising from intentional or unintentional external events, internal communication failures or inappropriate employee behaviour. To manage the risk, potential communication issues and communication risks are identified in a timely manner through routine processes, there is continuous monitoring of the media, the public environment and public opinion, communication about the *Group's* activities and steps are taken to promote public awareness and understanding of the *Group's* activities and its current development.

# 7. FOREIGN BRANCHES AND REPRESENTATIVE OFFICES

Since 2012, Latvijas dzelzceļš has had a representative office in Moscow, the capital of Russia.

Since 2017, Latvijas dzelzceļš has had a representative office in Minsk, the capital of Belarus.

At the end of 2022, work was started to terminate the activity of these two representation offices in 2023.

The Group has no foreign subsidiaries.

# 8. GEOPOLITICAL SITUATION AND ITS IMPACT ON THE GROUP'S ABILITY TO CONTINUE AS A GOING GROUP

The external factors related to the geopolitical situation, the war in Ukraine and the international economic sanctions imposed on Russia and Belarus, as well as the consequences of the coronavirus pandemic COVID-19 indicate that the situation with regard to freight volumes will not improve significantly in the future.

Following Russia's invasion of Ukraine on 24 February 2022, extensive economic and political sanctions were imposed on Russia and Belarus. The sanctions had a significant impact on the Company's business and required a review of internal sanctions management processes and the allocation of additional resources to carry out sanctions checks, both on business partners and on freight transported freight.

Given the *Group's* cooperation with its Russian and Belarusian business partners and the nature of its operations, the war in Ukraine has undoubtedly had, and will continue to have, an impact on the Company's operations in 2023 and beyond. The restrictions to date have not caused any material immediate harm to the Company but predicting the potential impact of further sanctions on the Company's business in the future is difficult. In view of the risks associated with the sanctions, the following measures have been taken:

1) In order to mitigate the risks related to the current sanctions against financial institutions, we have identified all of the *Group's* customers and business partners that have their current accounts with the financial institutions included in the sanctions lists, contacted these customers, and asked them to change their bank, otherwise terminating cooperation with them.

2) In assessing the risks associated with the significantly expanded sectoral sanctions lists, the *Group* strengthened its freight screening procedures by increasing its assessment of freight types and their compliance with the sectoral sanctions.

3) All persons on the sanctions lists are displayed in the Sanctions Information System (IS) maintained by the *Group*, which performs a daily automated check of all customers and business partners against the sanctions lists. The IS Sanctions lists are updated daily by automatically querying

the official websites that provide information on sanctions against the Republic of Latvia, the European Union, the United Nations, and OFAC.

4) In 2023, work will continue on enhancing the IS Sanctions and on strengthening the sanctions area at the *Group* through a number of technical enhancements, as well as by setting up Sanctions Control Unit in *Latvijas dzelzceļš*, which is responsible for sanction checks and by strengthening the exchange of information on sanction checks within the *Group*.

The Group's Management is aware of the uncertainty related to further developments and will continue to routinely monitor the developments as well as their potential impact on the Group's operations.

However, despite the difficult situation, Latvijas dzelzceļš' *Management* is confident that the going concern basis is applicable to the preparation of these financial statements because of the commencement of the implementation of the *Group's* new business model, execution of the crisis plan and reviews of organisational and technological processes, which has resulted and will continue to result in cost savings, and the receipt of the necessary public funding for 2022 as part of the Multi-Annual Agreement "On planning and financing of the maintenance and development of the public-use railway infrastructure managed by VAS "Latvijas dzelzceļš", entered into between VAS "Latvijas dzelzceļš" and the Ministry of Transport". Furthermore, work on the implementation of the *Group's* new business model and the Company's Medium-term business strategy 2025 will continue in 2023. A new agreement is being negotiated with the Ministry of Transport regarding the planning and financing of the maintenance and development of the public-use railway infrastructure managed by VAS "Latvijas dzelzceļš", as the hitherto effective Multi-Annual Agreement expired on 31 December 2022.

The main task of *Latvijas dzelzceļš* to ensure the managing of the national public-use railway infrastructure and to provide safe, high-quality, and efficient railway services in the interest of the Latvian state and economy.

The funding required to achieve the financial stability in 2022 is recognised in revenue in accordance with the recognition principles laid down in IAS 20 *Accounting for government grants*. These principles require the recognition of a government grant when there is reasonable assurance that the conditions attached to the receipt of the grant will be met. In addition, grants to cover 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 stability payment are the non-fulfilment of the financial stability conditions set out in the Multi-Annual Agreement. The *Company* did not meet the financial stability conditions set out in the Multi-Annual Agreement in 2022, consequently, the criteria for receiving the financial stability payments under the Multi-Annual Agreement were met.

While it is certain that the funding will be received, there is uncertainty as to the timing of receipt of the additional funding necessary for the *Company*. This uncertainty applies in respect of the funds to compensate the full costs of maintenance and renewal of the railway infrastructure for providing public transport services throughout 2023 as well as the funds for ensuring the financial stability of *Latvijas dzelzceļš*.

# 9. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS FOR 2022

At the beginning of 2023, it is planned to terminate the shareholding of VAS "Latvijas dzelzceļš" in SIA "LDZ infrastruktūra" by liquidating the latter under Cabinet Order No 13. "On the termination of decisive influence of state joint stock company "Latvijas dzelzceļš" on and shareholding in limited liability company "LDZ infrastruktūra" and on the termination of indirect decisive influence of state joint stock company "Latvijas dzelzceļš" on and shareholding in limited liability company "LDZ infrastruktūra" and on the termination of indirect decisive influence of state joint stock company "Latvijas dzelzceļš" on and shareholding in limited liability company "Rīgas Vagonbūves Uzņēmums "Baltija"" and on the termination of direct decisive influence of limited liability company "LDZ ritošā sastāva serviss" on and shareholding in limited liability company Rīgas Vagonbūves Uzņēmums "Baltija" of 12 January 2022.

In January 2023, under Cabinet Order No. 965 dated 21.12.2022, EUR 11 million were paid to settle the arrears of the deferred compulsory national social insurance contributions, for which the State Revenue Service had granted a three-year term extension in 2020, under the aid mechanism developed by the state to compensate for the consequences resulting from the COVID-19 pandemic.

Except for the above, there have been no events that would have had a material impact on the information presented in the financial statements for 2022.

# 10. STATEMENT ON THE RESPONSIBILITY OF THE BOARD

The Board of the *Group's* parent company (*Management*) is responsible for the preparation of the consolidated financial statements of the *Group*.

The consolidated financial statements on pages 18 to 63 have been prepared on the basis of the accounting records and supporting documents and give a true and fair view of the *Group's* financial position as at 31 December 2022 and of its performance and cash flows for 2022.

The above consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, based on the going concern principle. The judgements and estimates made by the *Management* in the preparation of the consolidated financial statements have been prudent and justified.

The *Group's Management* is responsible for ensuring an adequate accounting system, safeguarding the *Group's* assets, and detecting and preventing fraud and other irregularities committed in the *Group. Management* is responsible for compliance with the laws of the Republic of Latvia.

Riga, see the date on the timestamp

Chairman of the Board

Member of the Board

R. Pļavnieks V. Balode-Andrūsa

# CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED INCOME STATEMENT FOR 2022

|  |      |           | (EUR'000) |
|--|------|-----------|-----------|
|  | NOTE | 2022      | 2021      |
| Revenue                                    | 4    | 254 788   | 249 177   |
| Other income                               | 5    | 27 580    | 27 356    |
| Total operating income                     |      | 282 368   | 276 533   |
| Cost of goods, materials and services      | 6    | (84 323)  | (61 882)  |
| Personnel expenses                         | 7    | (124 314) | (134 824) |
| Depreciation, amortisation and impairment  | 8    | (60 888)  | (60 413)  |
| Other expenses                             | 9    | (13 148)  | (12 233)  |
| Total operating expenses                   |      | (282 673) | (269 352) |
| Operating profit/ (loss)                   |      | (305)     | 7 181     |
| Income from long-term investments          |      | -         | 1         |
| Finance expenses                           | 10   | (1 803)   | (1 874)   |
| Profit/ (loss) before corporate income tax |      | (2 108)   | 5 308     |
| Corporate income tax                       | 11   | (260)     | (1 399)   |
| Profit/ (loss) for the year                |      | (2 368)   | 3 909     |

The Notes on pages 25 to 63 form an integral part of these consolidated financial statements.

Riga, see the date on the timestamp

Chairman of the Board Member of the Board R. Pļavnieks V. Balode-Andrūsa

The annual report was prepared by the Financial Department of VAS "Latvijas dzelzceļš": Finance Director R. Razums

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR 2022

|   |         | (EUR'000) |
|---|---------|-----------|
|   | 2022    | 2021      |
| Profit/ (loss) for the reporting year   | (2 368) | 3 909     |
| Items that will not be reclassified to the Consolidated<br>Income Statement:                                      | (7 105) | -         |
| Write-off of revalued property, plant and equipment   | (7 105) | -         |
| Other expenses for the reporting year   | (7 105) | -         |
| Comprehensive income/ (expenses) for the reporting year   | (9 473) | 3 909     |
| Comprehensive income/ (expenses) for the year<br>attributable to the shareholder of the Group's Parent<br>company | (9 473) | 3 909     |

The Notes on pages 25 to 63 form an integral part of these consolidated financial statements.

Riga, see the date on the timestamp

Chairman of the Board

Member of the Board

R .Pļavnieks V. Balode-Andrūsa

The annual report was prepared by the Financial Department of VAS "Latvijas dzelzceļš": Finance Director R. Razums

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2022

|  |      |               | (EUR'000)     |
|--|------|---------------|---------------|
| ASSETS   | NOTE | At 31.12.2022 | At 31.12.2021 |
| Long-term investments  |      |               |               |
| Property, plant and equipment  | 13   | 680 373       | 710 319       |
| Intangible assets  | 12   | 3 488         | 1 823         |
| Right-of-use assets  | 14   | 5 557         | 7 953         |
| Advance payments for property, plant and equipment and intangible assets |      | 29 787        | 10 520        |
| Long-term financial investments  |      | 74            | 84            |
| Total long-term investments  |      | 719 279       | 730 699       |
| Current assets   |      |               |               |
| Inventories  | 16   | 14 181        | 14 559        |
| Short-term investments held for sale                                     | 17   | -             | 4 173         |
| Trade and other receivables  | 18   | 15 422        | 12 686        |
| Accrued income   | 19   | 24 359        | 40 167        |
| Cash and cash equivalents  | 20   | 80 388        | 64 622        |
| Total current assets   |      | 134 350       | 136 207       |
| Total assets   |      | 853 629       | 866 906       |

(continued on next page)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2022 (CONTINUED)

|  |      |               | (EUR'000      |
|--|------|---------------|---------------|
| PASSIVE  | NOTE | At 31.12.2022 | At 31.12.2021 |
| Equity and liabilities   |      |               |               |
| Equity   |      |               |               |
| Attributable to the shareholder of the Group's parent company: |      |               |               |
| Share capital  | 21   | 327 622       | 289 142       |
| Long-term investment revaluation reserve                       | 22   | 28 981        | 36 086        |
| Reserves and retained earnings                                 | 22   | 38 857        | 72 600        |
| Total equity   |      | 395 460       | 397 828       |
| Liabilities  |      |               |               |
| Non-current liabilities  |      |               |               |
| Deferred tax liability   | 11   | 1 863         | 1 847         |
| Provisions   | 23   | 5 838         | 5 826         |
| Borrowings from credit institutions                            | 24   | 66 309        | 90 557        |
| Taxes and compulsory national social insurance contributions   | 25   | 6 824         | 19 438        |
| Trade payables   |      | 1 356         | 930           |
| Lease liabilities  |      | 3 378         | 5 465         |
| Deferred income  | 26   | 265 445       | 250 209       |
| Total non-current liabilities                                  |      | 351 013       | 374 272       |
| Current liabilities  |      |               |               |
| Borrowings from credit institutions                            | 24   | 24 247        | 30 059        |
| Provisions   | 23   | 763           | 1 875         |
| Trade and other payables                                       |      | 39 343        | 30 822        |
| Taxes and compulsory national social insurance contributions   | 25   | 20 330        | 9 661         |
| Lease liabilities  |      | 2 234         | 2 568         |
| Deferred income  | 26   | 20 239        | 19 821        |
| Total current liabilities                                      |      | 107 156       | 94 806        |
| Total liabilities  |      | 458 169       | 469 078       |
| Total equity and liabilities                                   |      | 853 629       | 866 906       |

The Notes on pages 25 to 63 form an integral part of these consolidated financial statements.

Riga, see the date on the timestamp

| Chairman of the Board | R. Pļavnieks      |
|-----------------------|-------------------|
| Member of the Board   | V. Balode-Andrūsa |

The annual report was prepared by the Financial Department of VAS "Latvijas dzelzceļš": Finance Director R. Razums

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|   | ATTRIBUTAB        | LE TO THE SHARE                                   | HOLDER OF THE GR                     | OUP'S PARENT CO                   | OMPANY          |
|---|-------------------|---|--------------------------------------|-----------------------------------|-----------------|
| -   | SHARE-<br>CAPITAL | LONG-TERM<br>INVESTMENT<br>REVALUATION<br>RESERVE | RESERVES AND<br>RETAINED<br>EARNINGS | RETAINED<br>EARNINGS<br>OR LOSSES | TOTAL<br>EQUITY |
|   |                   |   | 2021                                 |                                   |                 |
| At 01.01.2021   | 289 142           | 36 086  | 104 206                              | (35 515)                          | 393 919         |
| 2020 loss transferred to<br>retained earnings   | -                 | -   | (35 515)                             | 35 515                            | -               |
| Transactions with the<br>Group's shareholder  | -                 | -   | (35 515)                             | 35 515                            | -               |
| Profit for the reporting year   | -                 | -   | -                                    | 3 909                             | 3 909           |
| Comprehensive income for<br>the reporting year  | -                 | -   | -                                    | 3 909                             | 3 909           |
| At 31.12.2021   | 289 142           | 36 086  | 68 691                               | 3 909                             | 397 828         |
|   |                   |   | 2022                                 |                                   |                 |
| 01.01.2022  | 289 142           | 36 086  | 68 691                               | 3 909                             | 397 828         |
| 2021 profit transferred to<br>retained earnings   | -                 | -   | 3 909                                | (3 909)                           | -               |
| Increase in share capital (Note 21)   | 38 480            | -   | (38 480)                             | -                                 | -               |
| Transactions with the<br>Group's shareholder  | 38 480            | -   | (34 571)                             | (3 909)                           | -               |
| Write-off of revalued<br>property, plant and<br>equipment   | -                 | -   | 7 105                                | -                                 | 7 105           |
| Effect on of the write-off of the<br>revalued property, plant and<br>equipment on other<br>comprehensive income | -                 | (7 105)   | -                                    | -                                 | (7 105)         |
| Loss for the reporting year   | -                 | -   | -                                    | (2 368)                           | (2 368)         |
| Comprehensive expenses for<br>the reporting year  | -                 | (7 105)   | -                                    | (2 368)                           | (9 473)         |
| At 31.12.2022   | 327 622           | 28 981  | 41 225                               | (2 368)                           | 395 460         |
|   |                   |   |                                      |                                   |                 |

The Notes on pages 25 to 63 form an integral part of these consolidated financial statements.

Riga, see the date on the timestamp

Chairman of the Board

Member of the Board

The annual report was prepared by the Financial Department of VAS "Latvijas dzelzceļš": Finance Director R. Razums

This document has been signed digitally with a secure electronic signature and contains a timestamp

R. Pļavnieks V. Balode-Andrūsa

(EUR'000)

# CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2022

# (prepared using the indirect method)

|  |      |          | (EUR'000) |
|--|------|----------|-----------|
|  | NOTE | 2022     | 2021      |
| Cash flow from operating activity  |      |          |           |
| Profit/ (loss) before taxes  |      | (2 108)  | 5 308     |
| Adjustments:   |      |          |           |
| Depreciation of property, plant and equipment and other impairment adjustments |      | 44 877   | 41 882    |
| Amortisation of intangible assets and other impairment adjustments             | 12   | 657      | 582       |
| Foreign currency gains   | 5    | (189)    | (202)     |
| Income from investment in equity of associates and other companies             |      | -        | (1)       |
| Impairment losses on investments, net  |      | 10       | -         |
| Interest and similar charges   | 10   | 1 803    | 1 874     |
| Profit before adjustments for changes in the working capital                   |      | 45 050   | 49 443    |
| Adjustments:   |      |          |           |
| Decrease/(increase) in receivables   |      | 13 075   | (29 624)  |
| Decrease in inventories  |      | 4 600    | 2 654     |
| Increase in trade and other payables   |      | 1 867    | 9 009     |
| Gross cash flow from operating activity  |      | 64 592   | 31 482    |
| Interest expense   |      | (1 682)  | (1 900)   |
| Corporate income tax expense   | 11   | (244)    | (29)      |
| Net cash flow from operating activity  |      | 62 666   | 29 553    |
| Cash flow from investing activity  |      |          |           |
| Acquisition of property, plant and equipment and intangible assets             |      | (46 294) | (18 827)  |
| Proceeds from sale of property, plant and equipment and intangible assets      |      | 1 875    | 987       |
| Subsidies or grants received   | 26   | 30 098   | 6 178     |
| Dividends received   |      | -        | 1         |
| Net cash flow from investing activity  |      | (14 321) | (11 661)  |
|  |      |          |           |

(continued on next page)

# CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2022 (CONTINUED)

|   |       |          | (EUR'000) |
|---|-------|----------|-----------|
|   | NOTES | 2022     | 2021      |
| Cash flow from financing activity                                 |       |          |           |
| Borrowings received   | 24    | -        | 10 541    |
| Borrowings repaid   | 24    | (30 060) | (48 753)  |
| Lease payments  |       | (2 607)  | (2 501)   |
| Net cash flow from financing activity                             |       | (32 667) | (40 713)  |
| Foreign currency exchange rate fluctuations                       |       | 88       | 183       |
| Changes in cash and cash equivalents during the<br>reporting year |       | 15 766   | (22 638)  |
| Cash and cash equivalents at the beginning of the reporting year  |       | 64 622   | 87 260    |
| Cash and cash equivalents at the end of the reporting year        | 20    | 80 388   | 64 622    |

The Notes on pages 25 to 63 form an integral part of these consolidated financial statements.

Riga, see the date on the timestamp

Chairman of the Board

R. Pļavnieks V. Balode-Andrūsa

Member of the Board

The annual report was prepared by the Financial Department of VAS "Latvijas dzelzceļš": Finance Director R. Razums

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# 1. GENERAL INFORMATION

The *Group* manages public-use railway infrastructure, provides railway transport services and services related thereto.

The *Group's* parent company, state joint stock company "Latvijas dzelzceļš", is the *Group's* dominant company and performs the functions of the manager of the public railway infrastructure.

The *Group's* parent company is registered in the Commercial Register of the Republic of Latvia as a state joint stock company and is 100% owned by the Republic of Latvia. The registered office of the *Group's* parent company is at Gogola iela 3, Riga, LV-1547, Latvia.

All *Group* companies are incorporated in the Republic of Latvia, and the *Group's* parent company has a direct decisive influence on them. *The Group* includes the following companies:

| NAME   | TYPE OF ACTIVITY  |
|--|---|
| SIA "LDZ CARGO"  | Freight transportation services   |
| SIA "LDZ ritošā sastāva serviss"   | Maintenance and repair of rolling stock, rental services of<br>locomotives, track machinery and plant |
| SIA "LDZ infrastruktūra"   | Rental services of track machinery and plant, in the process of liquidation                           |
| SIA "LDZ apsardze"   | Security services   |
| SIA "LDZ Loģistika"  | Transport forwarding and logistics services   |
| AS "LatRailNet"  | Performing the essential functions of an infrastructure<br>manager                                    |
| SIA "Riga Vagonbūves uzņēmums "Baltija""<br>(from 30.12.2022 merged into SIA "LDZ ritošā |   |

sastāva serviss")

The consolidated financial statements are approved by the general meeting of shareholders convened by the Board of the state joint stock company "Latvijas dzelzceļš" after receipt of the auditor's opinion and the Council's report.

# 2. ACCOUNTING AND MEASUREMENT PRINCIPLES

These financial statements have been prepared on the basis of the accounting and measurement principles set out below. These principles have been accordingly applied to all comparatives, unless otherwise stated.

# 2.1. ACCOUNTING AND MEASUREMENT PRINCIPLES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The consolidated financial statements have been prepared under the historical cost convention, with the additional application of the revaluation method for freight transportation wagons (included under property, plant and equipment), using the going concern basis.

The consolidated financial statements cover the period from 1 January 2022 to 31 December 2022.

In preparing the financial statements in conformity with IFRS, *Management* relies on certain estimates and assumptions that affect the reported amounts of items and disclosure of contingent liabilities in the stand-alone financial statements. Future events may affect the assumptions on which the estimates are based. The effects of changes in estimates are reflected in the financial statements at the time they are made. Although these estimates are based on comprehensive information available to *Management* about the current developments and activities, actual results may differ. Significant assumptions and judgements are disclosed in Note 3.

In the reporting year, no such International Financial Reporting Standards, amendments thereto, and amendments to interpretations, the adoption of which would have a material impact on the *Group's* operations, became effective. In the reporting year, the following amendments to standards became effective and have been adopted for use in the EU as of 1 January 2022:

- Income before the expected use of property, plant and equipment, Onerous contracts cost of fulfilling a contract, Reference to the conceptual framework (IFRS) Narrow scope amendments to IAS 16, IAS 37, and IFRS and 2018-2020 Annual Improvements to IFRSs Amendments to IFRS 1, IFRS 9, IFRS 16, and IAS 41 (effective for annual periods beginning on or after 1 January 2022).
- Amendments to IFRS 16 COVID-19-Related Rent Concessions (effective for annual periods beginning on or after 1 April 2021). The Amendments provide for an option for lessees (but not lessors) to use the exemption from the Standard's requirement to assess whether a COVID-19-related concession is a lease modification.

The following amendments or interpretations to standards that might affect the *Group's* financial statements and whose impact is currently being assessed by *the Group's Management*, but whose initial estimates indicate that the impact will not be material, will become effective on or after 1 January 2023:

- IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023, not adopted for use in the EU);
- Amendments to IAS 1 Classification of Liabilities as Current and Non-current (effective for annual periods beginning on or after 1 January 2022, not endorsed for use in the EU);
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require entities to disclose material accounting policies rather than significant accounting policies. Furthermore, *IFRS Practice Statement 2: Making Materiality Judgements* was amended to provide guidance on how to apply the concept of materiality to disclosing accounting policies.
- Amendments to IAS 8 Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023). Amendments to IAS 8 clarified how entities must distinguish changes in accounting policies from changes in accounting estimates.
- Amendments to IFRS 16 Lease liability in a sale and leaseback (effective for annual periods beginning on or after 1 January 2024, not adopted for use in the EU).

The Group's Management has assessed the impact of other standards and interpretations that will become effective from 1 January 2023 and does not expect them to have a material effect on the Group's financial statements.

# 2.2. FOREIGN CURRENCY REVALUATION

# Functional and presentation currency

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

# Transactions and balances in foreign currencies

All transactions denominated in foreign currency are translated into EUR at the EUR reference rate published by the European Central Bank at the beginning of the day of the transaction. Monetary assets and liabilities denominated in foreign currency on the last day of the reporting year are presented in the financial statements after translating them into EUR at the foreign currency exchange rate to be used in the books consistently with the currency exchange rate published by the European Central Bank (ECB) at the end of the last day of the reporting year. As the ECB does not publish the Russian rouble (RUB) exchange rate, the exchange rate published on www.xe.com is used.

Currency exchange rate differences arising from settlements in currencies are recognised in the Consolidated Income Statement.

| FOREIGN CURRENCY | CURRENCY UNITS PER EUR 1<br>31.12.2022 | CURRENCY UNITS PER EUR 1<br>31.12.2021 |
|------------------|--|--|
| USD              | 1.06660                                | 1.13260                                |
| CHF              | 0.98470                                | 1.03310                                |
| RUB              | 78.91224                               | 85.30040                               |

# 2.3. INTANGIBLE ASSETS

Intangible assets mainly consist of software licences. They are initially recognised at cost. Intangible assets have a finite and limited useful life. Subsequently, intangible assets are measured at cost less accumulated amortisation and impairment loss.

Subsequent costs are capitalised, increasing the value of the existing intangible asset, or recognised as a separate intangible asset only when it is probable that future economic benefits associated with the item will flow to the *Group* and if the costs can be measured reliably. Other costs are recognised in the Consolidated income statement as incurred.

Intangible assets are amortised on a straight-line basis to write off their cost over their useful lives and is recognised in the Consolidated income statement for the respective period. Intangible assets are generally amortised over 5 years.

# 2.4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised under the cost method, or the revaluation method as described below, less accumulated depreciation and accumulated impairment, if any.

Railway rolling stock used for freight transportation, except diesel trains and locomotives, is accounted for using the revaluation method, i.e., this property, plant and equipment is revalued at least every five years, with the aim of ensuring that their carrying amount is not materially different from their fair value at the end of the reporting year. The increase in the carrying amount resulting from the revaluation is recognised in other comprehensive income and as a revaluation reserve in equity. Impairments relating to property, plant and equipment for which an increase in value was previously recognised are recognised in other comprehensive income and reduce the revaluation reserve in equity. Otherwise, any impairment arising on revaluation is recognised in the Consolidated income statement. In the event of sale or disposal of property, plant and equipment, the revaluation reserve previously included in equity is reclassified to retained earnings.

At the date of revaluation, accumulated depreciation is eliminated against the historical cost of the asset, net amount is included in the revalued amount so that the carrying amount of the asset after revaluation is equal to its revalued amount.

Other categories of property, plant and equipment are accounted for using the historical cost method, whereby property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment, if any. Purchase costs include costs directly attributable to the purchase of the asset. The cost of an item of property, plant and equipment that *the Group* has constructed itself consists of the cost of materials and direct labour and any other costs directly attributable to bringing the item into working condition for its intended purpose, and the costs of demolishing and removing the item and restoring the site where it is to be located. The cost of acquiring computer software that is closely related to the functionality of the equipment and cannot be separated from it is capitalised as part of that equipment.

The *Group* capitalises property, plant and equipment with a cost exceeding EUR 500 and a useful life exceeding one year. Investments in leased property, plant and equipment are capitalised and disclosed as property, plant and equipment.

Where the useful lives of individual components of property, plant and equipment differ, they are accounted for as separate components of property, plant and equipment. The estimated book values and useful lives of property, plant and equipment are reviewed and adjusted as necessary at each reporting date.

Subsequent costs are recognised in the carrying amount of an asset or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the *Group* and the cost of the item can be measured reliably. Other current repairs and maintenance costs

of property, plant and equipment are recognised in the Consolidated income statement in the period in which they are incurred.

Gain or loss on disposal of property, plant and equipment is calculated as the difference between the carrying amount of the asset and the proceeds from disposal and recognised in the Consolidated income statement for the period.

Where the carrying amount of an asset is higher than its recoverable amount, the asset is written down immediately to its recoverable amount (see Note 3).

#### Depreciation

Depreciation of property, plant and equipment is calculated using the straight-line method. Depreciation is recognised in the Consolidated income statement.

Investments in leased property, plant and equipment are depreciated over the shorter of the lease term or the useful life of a similar asset at the rates applied to the category in which investments in leased property, plant and equipment are classified. Land is not depreciated.

Depreciation on the *Group*'s property, plant and equipment for the reporting period is calculated on the carrying amount of each asset by applying the determined useful life of the asset.

| PROPERTY, PLANT AND EQUIPMENT  | USEFUL LIFE  |
|--|--------------|
| Buildings and structures   | 10-130 years |
| Permanent plantings  | 40 years     |
| Railway rolling stock - wagons for technological purposes and freight  | 22-40 years  |
| Railway rolling stock - locomotives, diesel trains and plant           | 5-40 years   |
| Track machinery  | 30 years     |
| Computers and communication equipment, photocopiers and their fittings | 3-10 years   |
| Other property, plant and equipment                                    | 5-30 years   |

# **Unfinished construction**

Assets that are not ready for their intended use at the time of their acquisition or are in the process of being installed are classified under "Cost of unfinished construction objects". The cost of unfinished construction is increased during the period by borrowing costs and other direct costs related to the asset until it is placed in service. The cost of the asset is not increased by borrowing costs during periods when no active work is being carried out on the development of the unfinished construction object.

When unfinished construction objects are ready for their intended use, they are reclassified to the appropriate category of property, plant and equipment and the calculation of depreciation begins. Unfinished construction objects are regularly reviewed for impairment.

# 2.5. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of determining impairment, assets are grouped at the lowest level for which cash flows can be determined (cash-generating units). Impairment losses are recognised in the Consolidate income statement.

Impairment losses recognised in prior periods are reviewed at each balance sheet date to determine whether there is any evidence that the loss has decreased or no longer exists. An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount. Impairment losses are reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount, net of depreciation, which would be determined if no impairment loss had been recognised.

# 2.6. FINANCIAL INSTRUMENTS

# **Classification of financial instruments**

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

The classification of debt instruments depends on the business model adopted by the *Group* for managing financial assets and whether the contractual cash flows consist solely of principal and interest payments (SPPI). If a debt instrument is held to collect cash flows, it may be carried at amortised cost if it meets the SPPI requirements. Financial assets whose cash flows do not meet the SPPI requirements must be measured at FVTPL (e.g., derivatives). Embedded derivatives are not separated from financial assets, when assessed whether the SPPI requirements have been met, when they are recognised in financial assets.

Equity instruments are always measured at fair value. However, *Management* has the possibility to make an irrevocable choice to present fair value changes in other comprehensive income if the instrument is not held for trading. If an equity instrument is held for trading, the fair value changes must be recognised in the Consolidated income statement.

# **Recognition and derecognition**

Financial assets are recognised when the *Group* becomes a party to the contractual provisions and has fulfilled the terms and conditions of the transaction, i.e., on the trade date.

Financial assets are derecognised when the *Group's* contractual right to the cash flows arising from the financial assets expire or when the *Group* transfers the financial asset to another party or transfers the material risks of and rewards from the asset. Purchase and sale of financial assets in the ordinary course of business are accounted for on the trade date, i.e., the date on which the *Group* decides to buy or sell the asset.

Financial liabilities are derecognised when the underlying obligation is withdrawn, cancelled or expires.

# Measurement

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

# Financial assets at fair value through Consolidated income statement

This category includes equity instruments held by the *Group*, which comprise Other Securities and Investments. These investments are presented within long-term assets unless *Management* intends to sell them within 12 months of the reporting date. The fair value of these financial assets is determined based on estimates made by the *Group's Management* based on financial information about these investments. Changes in fair value are recognised in the Consolidated income statement.

Dividends on investments are recognised in the Consolidated Income statement when the *Group* becomes legally entitled to them.

# Financial assets at fair value through profit or loss

This category includes the *Group's* equity instruments, reported under Other securities and investments. These investments are recognised under long-term investments unless *Management* intends to sell them within 12 months of the reporting date. The fair value of these financial assets is determined based on the estimates made by the *Group's Management*, which rest on the financial information about these investments. Changes in fair value are recognised in the Consolidated income statement.

Dividends on investments are recognised in the Consolidated income statement when the *Group* has a legal right to them.

# Financial assets at amortised cost

Financial assets at amortised cost are debt instruments with fixed or determinable payment schedules 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, cash and cash equivalents. Financial assets at amortised cost are classified as short-term assets if their maturity

is one year or less. If the maturity exceeds one year, they are recognised as long-term assets. Short-term receivables are not discounted.

Financial assets at amortised cost are initially recognised at fair value. Subsequently, they are carried at amortised cost determined using the effective interest method, net of allowances for impairment.

# Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current account balances, and short-term highly liquid investments that are readily convertible to cash when necessary and are not subject to material risk of changes in value.

### Impairment of financial assets at amortised cost

Impairment is recognised in accordance with the expected credit loss (ECL) model. The model has a three-step approach based on changes in the credit quality of the financial asset compared to the initial recognition. The *Group* immediately recognises a loss equal to the 12-month ECL on initial recognition of a financial asset, even if the financial asset does not show any signs of impairment (for trade receivables a lifetime expected credit loss is recognised). In the event of a material increase in credit risk, impairment is measured using the asset's lifetime ECL rather than the 12-month ECL. The model includes operational allowances for trade receivables.

The *Group* has applied the operational allowances permitted under IFRS 9 for the measurement of trade receivables: trade receivables are grouped by credit quality and days past due, with a percentage of expected credit losses applied to each relevant group. The ECL rates are estimated considering the last three years of payment history, adjusted to consider information on the present and future projections.

Receivables from related parties as well as loans granted to related parties are classified in a separate group for ECL purposes, considering not only past experience but also the creditworthiness and projections for future development of the ultimate beneficiary - the Republic of Latvia. Loans granted to subsidiaries are considered as assets with a credit risk that has not increased significantly since the date of initial recognition. Therefore, the expected credit loss over the next 12 months is included in the ECL calculation.

Impairment allowances are recognised in a separate allowance account and losses are recognised in the Statement of comprehensive income. If, in a subsequent period after the impairment loss is recognised, the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised (such as an improvement in the debtor's credit rating), a reversal of the previously recognised impairment loss is recognised in the Consolidated income statement.

# Financial liabilities at amortised cost

Financial liabilities at amortised cost include Borrowings from credit institutions, Other borrowings, Trade and other payables.

Financial liabilities at amortised cost are initially recognised at fair value. In subsequent periods, financial liabilities at amortised cost are measured at amortised cost using the effective interest method. Financial liabilities at amortised cost are classified as current liabilities if their maturity term is one year or less. If the maturity term exceeds one year, they are presented as non-current liabilities.

### Borrowings

Borrowings are initially recognised at fair value, net of borrowing costs incurred. In subsequent periods, borrowings are measured at amortised cost using the effective interest method. The difference between the amount of proceeds, less borrowing costs, and the redemption value of the borrowing is gradually recognised in the profit or loss, using the borrowing's effective interest rate. This difference is recognised under finance expenses.

Borrowings are classified as current liabilities except in cases when the *Group* has an irrevocable right to defer the settlement of the liability for at least 12 months after the balance sheet date.

### Offsetting financial assets and liabilities

Financial assets and liabilities are offset and recognised in the balance sheet at net amounts when there is a legal right of setoff and there is an intention to settle at net amounts or to transfer the asset and settle the liability simultaneously.

# 2.7. INVENTORIES

Inventories are measured at the lower of cost or net realisable value. Net realisable value is the selling price of inventories less costs to complete and sell, determined in the ordinary course of the *Group's* business. The purchase cost is determined using the weighted average inventory measurement method for fuel and the FIFO (first in, first out) method for other inventory components.

If necessary, provisions are created for impairment of obsolete, slow-moving or damaged inventories. 100% provisions are created for inventories that have not been used for over a year. The amount of provisions is recognised in the Consolidated income statement.

# 2.8. LONG-TERM ASSETS HELD FOR SALE (OR DISPOSAL GROUPS)

Long-term assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition will be regarded as satisfied only if the likelihood of a sale transaction is high and the asset (or disposal group) is available for immediate sale in its present condition. Long-term assets held for sale (or disposal groups) are measured at the lower of their carrying amount and fair value less costs to sell at the time of reclassification.

An impairment loss is recognised when, at initial recognition or subsequent accounting, the asset (or disposal group) is reduced from its initial carrying amount to fair value less costs to sell. An impairment loss may be reversed and recognised in income if the fair value of the asset (or disposal group) less costs to sell increases. However, such a reversal may be recognised only to the extent that it offsets a previously recognised impairment of that asset (or disposal group).

Net gain or loss on sale of non-current assets (or disposal groups) held for sale is recognised on sale.

Long-term assets (or disposal groups) held for sale are not deferred or amortised until they are classified as held for sale.

Long-term assets held for sale and assets that are part of a disposal group are presented separately from other assets in the balance sheet. Liabilities in the disposal group are presented separately from other liabilities in the balance sheet.

# 2.9. SHARE CAPITAL AND PAYMENTS FOR THE USE OF THE STATE'S CAPITAL GOVERNMENT (DIVIDENDS)

The share capital of the *Group's* parent company consists of ordinary registered shares. All shares of the *Group's* parent company are dematerialised shares. The nominal value of a share is one euro.

Dividends or payments to a shareholder of the *Group's* parent company for the use of government shares are recognised as a liability in the *Group's* financial statements in the period in which the amount of the dividend is approved by the shareholder of the *Group's* parent company.

# 2.10. RESERVES

After the approval of each annual report, the general meeting of shareholders decides on the distribution of the profit for the year. A portion of the *Group's* parent company's profit after tax may be transferred to the reserve capital, based on a resolution of the general meeting of shareholders of the *Group's* parent company. For this purpose, "Reserves" have been created under equity. The appropriation and distribution of Other reserves lies within the competence of the general meeting of shareholders.

# 2.11. ACCRUED UNUSED ANNUAL LEAVE EXPENSES

The accrued unused annual leave expenses are calculated for each employee by multiplying the number of days of unused leave at the end of the accounting year by the average daily salary during the last six months of the reporting year as increased by the employer's share of compulsory national social insurance contributions.

# 2.12. PROVISIONS

Provisions are recognised when the *Group* has a legal or constructive obligation as a result of past events, 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 liability.

If the *Group* expects to receive reimbursement for some or all of the costs required to create the provisions, the reimbursement of those costs is recognised as a separate asset if, and only if, it is virtually certain that the expenses will actually be reimbursed. The cost of provisions is recognised in the Consolidated income statement, net of amounts recovered.

# 2.13. CORPORATE INCOME TAX FOR THE REPORTING YEAR

Corporate income tax is recognised in the Consolidated Income Statement.

Corporate income tax is calculated in accordance with the legislation in force at the end of the reporting period. The current legislation imposes a tax rate of 20 per cent on the calculated taxable base, adjusted before the application of the tax rate by dividing the value of the corporate taxable amount by 0.8.

Corporate income tax calculated on distribution of dividends is shown separately in the Consolidated income statement, and other cases - under Other operating expenses.

No deferred tax asset or liability arises because there is no difference between the carrying amounts of assets and liabilities and their tax bases. As the *Group's* parent company controls the dividend policy of the *Group's* subsidiaries, it is also able to control the timing of reversals of temporary differences related to investments in subsidiaries, including temporary differences arising from retained earnings. Accordingly, deferred tax liability is recognised in the *Group's* consolidated financial statements in respect of temporary differences arising on retained earnings at the tax rate applicable to retained earnings, unless the *Group* has assessed that dividends will be distributed in the foreseeable future.

# 2.14. REVENUE RECOGNITION

Revenue is the consideration received as a result of carrying out operating activities. Revenue is measured at the contractual transaction price. The transaction price is the amount that the *Group* expects to receive upon transfer of control over the goods or services, excluding amounts collected on behalf of third parties (e.g., value added tax). The transaction price is reduced by any discounts or other benefits granted to the customer. The specific criteria for recognising revenue of the *Group* for each type of revenue are set out below.

The *Group* does not have any contracts with a customer that have a settlement period of more than one year and therefore does not make adjustments to reflect 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 over them is transferred, i.e., when the *Group* has delivered the goods to the customer and the customer has accepted the goods 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 total service provided to the total contracted service ratio, if applicable.

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

- Freight transportation services SIA "LDZ CARGO" provides freight transportation services:
  - from the station of dispatch to the station of destination (within Latvia) for domestic transportation services;
  - from the border station to the port terminal or land border station for transit services;
  - from the border station to the receiving station or in the opposite direction (for import and export transportation services).

Revenue for the freight transportation services to be provided consists of the tariff charge, plus additional charges not included in the tariff and determined under the contract. Freight transportation service charges are determined in accordance with the freight tariff, a system

of rates that includes information on the distances to be covered, the procedure for calculating the charges and the freight charges, which consist of the transportation charge, charges for additional operations and other services related to the transportation. Revenue is recognised in the period in which the services are rendered.

 Public-use railway infrastructure services – access to the railway infrastructure, provided by the infrastructure manager on a non-discriminatory basis to all carriers. Latvijas dzelzceļš provides a service comprising the public-use minimum access service package and access to the public-use railway infrastructure connecting the railway infrastructure with service sites (the minimum access service package).

*The Company* receives state budget grants to fully cover the passenger segment costs and the costs relating to passenger stations on lines where passenger transportation has been suspended. Revenue from the grants received (excluding VAT), up to the amount of the funding received (excluding VAT), is recognised in the period in which the services are rendered).

- Service site and maintenance services services for the use of passenger stations and stops. The *Company* provides the following service site services at passenger stations: use of ticket counters, passenger notification systems and facilities for passengers. Revenue (excluding VAT) is recognised in the period in which the services are rendered, up to the amount of funding received.
- Ancillary services of the infrastructure manager, including service site services freight wagon sorting and assembly services (handling of freight wagons with or without train formation), wagon maintenance and inspection, running siding repairs, wagon storage services, etc. Revenue is recognised in the period in which the services are rendered.
- Specific services related to maintenance and repair of infrastructure construction and repair of track and bridge decks, replacement of switches, repair of railway machinery, tools and plant and modernisation of wagons, rail welding works and transportation of long rails, installation and repair of drainage systems, preparation of the ground base. Revenue is recognised when the services are rendered, or the repairs are completed.
- Forwarding services development of freight transport routes, organisation of rail freight transport, including the execution of transport documents, customs formalities, dispatch/receipt of freight. Revenue is recognised in the period in which the services are rendered.
- **Rental services** The *Group* rents out buildings, structures, land and other property, plant and equipment that are not necessary for carrying out its business, primarily to carriers and other companies and institutions the business of which is related to the operation of the railway system. Renting out unused space on railway infrastructure sites to external customers reduces the cost of the primary service. The result is increased competitiveness of the primary service and a more efficient use of the facilities. Revenue is recognised in the period in which the services are rendered. Revenue from rental services is recognised in accordance with IFRS 16.
- Electricity distribution and sale services the Company provides electricity distribution and sale services to natural and legal persons, including its subsidiaries. The cost of electricity distribution (traction substations and overhead contact lines) for passenger traction is included in the charge for using the public-use railway infrastructure for transportation and is not included in this service. Latvijas dzelzce/š provides electricity sale services to electricity consumers in compliance with the requirements laid down in Electricity Market Law, the Law On Regulators of Public Utilities and Cabinet Regulation No.50 Regulation on trading and use of electricity. Latvijas dzelzce/š operates as a primary service provider and therefore revenue and expenses are recognised on a gross basis. Revenue, calculated by multiplying the tariff by the number of kilowatt hours consumed, is recognised in the period of consumption.
- The principal's services include submission of the import summary declaration, undergoing the customs procedure - transit, and temporary storage. Revenue is recognised in the period in which the services are rendered. Until 31 March 2022, the principal's services were provided by *Latvijas dzelzceļš*. From 1 April 2022, the principal's services for all goods at all railway stations are provided by SIA "LDZ CARGO".
- Rolling stock repair and maintenance comprises services relating to the maintenance and repair of diesel locomotives; maintenance and repair of road construction machinery; work to extend the useful life of rolling stock, repair of assemblies and units, repair of the depot and

capital repairs to freight wagons; extension of the useful life of freight wagons; capital repairs to tanks and covered wagons; repair of track machinery and inspection of its condition. Revenue is recognised in the period in which the services are rendered.

- Traction services SIA "LDZ CARGO" provides locomotive crew services to companies of Latvijas dzelzceļš Group, other freight carriers, and other external customers to support their business operations. Revenue is recognised in the period in which the services are rendered.
- Electronic communications services data and electronic messaging services, leased line services, access services to electronic communications network infrastructure. Revenue is recognised based on the actual use of the network during the reporting period.
- Information technology services services relating to freight and passenger transportation information systems, train traffic, and business support, control and management information systems. Revenue is recognised in the period in which the services are rendered.
- **Construction services** includes own construction work on railway infrastructure. Revenue is recognised in the period in which the services are rendered.
- Storage and sale of diesel fuel fuel sales service provided by the Crewing centre fuel base
  of SIA "LDZ ritošā sastāva serviss". This service is provided mainly to the providers of rail
  transportation services. Revenue from the sale of diesel is recognised at the point of sale of
  fuel, i.e., when the fuel is filled into the vehicle. Revenue from other fuel-related services is
  recognised in the period in which the services are rendered.
- Security services SIA "LDZ apsardze" provides physical security of various objects and railway freight, designs and assembles various security, fire safety, and video surveillance systems, which are maintained and serviced during operation, as well as monitors the received alarm signals. Revenue is recognised in the period in which the services are rendered.
- Services at passenger stations the following service site services are provided at passenger stations: ticket counters, passenger notification systems and arranging the facilities for the use of passengers. Revenue is recognised in the period in which the services are rendered.
- Other services these services include commercial train inspection services, services for the
  operation of technology centres and transfer points, infrastructure manager specific services,
  and various other small-scale services for legal and natural persons. Revenue is recognised
  in the period in which the services are rendered.

# Interest income

Interest income is recognised on an accrual basis, using the effective interest method (in accordance with IFRS 9). Interest income on cash and cash equivalents is classified as finance income.

# Income from fines

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

# **Dividend income**

Dividend income is recognised when the legal right to receive dividends arises.

# 2.15. LEASES

# Classification

- At the inception of the contract, the *Group* assesses whether the contract is a lease or includes a lease. A contract is, or contains, a lease if the contract confers the right to control the use of an identifiable asset for a fixed period of time in exchange for consideration. To assess whether a contract is or contains a lease, the *Group* assesses whether:
  - The contract requires the use of an identifiable asset. The asset can be specified explicitly or implicitly and must be physically separable or reflect the full capacity of the asset from a physically separable asset. If the supplier has a significant right to substitute the asset, the asset is not identifiable;
  - The Group has the right to all economic benefits from the use of the identifiable asset for its useful life;

The Group has the right to determine the use to which the identifiable asset is put. The Group has the right to determine the use to which the asset will be put when it can decide how and for what purpose the asset will be used. Where the relevant decisions about how and for what purpose an asset is used are predetermined, the Group must assess whether it has the right to operate the asset or to direct the operation of the asset in a manner it determines, or whether the Group intends to use the asset in a predetermined manner on how and for what purpose the asset will be used.

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

#### Lessee

A lease is recognised as a right-of-use asset and the corresponding lease liability at the date the leased asset is available for use to the *Group*. The cost of the right-of-use asset is made up from:

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

The right-of-use asset is amortised on a straight-line basis from the commencement date until the end of the useful life of the underlying asset. Depreciation is charged on a straight-line basis from the commencement date to the end of the lease term unless the asset is to be redeemed. The right-of-use asset is reduced periodically by the amount of impairment losses, if any, and adjusted for revaluation of the lease liabilities.

At the date of initial recognition, assets and liabilities arising from leases are measured at the present value of the remaining lease payments, discounted at the *Group's* benchmark interest rate. Lease liabilities comprise the present value of the following lease payments:

- Fixed lease payments (including in-substance fixed lease payments), less lease incentives;
- Variable lease payments that depend on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option that the lessee is reasonably certain to exercise; and
- Payments for terminating the lease if the lease term reflects early termination.

Lease liabilities are remeasured when future lease payments change because the index or rate used to measure those payments has changed, the *Group's* estimate of the expected payments changes, or the *Group* changes its assessment of whether to exercise a call option, extend or terminate a lease. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or recognised in the profit or loss if the carrying amount of the right-of-use asset decreases to zero.

Each lease payment is split between the lease liability and interest expense on the lease liability. Interest expense on the lease liability is recognised in the profit or loss over the lease term to produce a constant periodic rate of interest on the remaining lease liability each period.

### Short-term leases and leases with a low-value underlying asset

Lease payments related to short-term leases or leases with a low-value underlying asset are recognised as an expense in the Statement of comprehensive income on a straight-line basis. A short-term lease is a lease with a term of 12 months or less at the commencement date.

#### Accounting by the lessor

Leases in which substantially all the risks and rewards incidental to ownership of an asset are transferred to the lessee are classified as finance leases. Leases in which the lessor retains substantially all the risks and rewards incidental to ownership are classified as operating leases.

Assets leased under operating leases are presented under property, plant and equipment at cost less depreciation. Depreciation is calculated using the straight-line method. Rental income from operating leases and prepayments received from customers are recognised in the Statement of comprehensive income over the lease period.

# Accounting for sublease transactions (the Group is the lessor)

Where the *Group* is the lessor under the contract, but part of the leased assets is leased further to a third party, a sublease results. Each sublease transaction is assessed for its compliance with the definition of a finance or operating lease in relation to the right-of-use asset. Accounting depends on the type of the sublease, whether the *Group* is the lessor under an operating lease or the *Group* is the lessor under 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 Group, as an intermediate lessor, reduces the "right-of-use asset" by creating the 'finance lease receivable' for that amount without recognising rental income from the sublease, but calculating interest income on the "finance lease receivable";
- During the term of the sublease, the *Group*, as an intermediate lessor, recognises depreciation expense on the "right-of-use asset" to the extent that it related to the portion of the "right-of-use asset" not subleased, but recognises interest expense on the full lease liability.

# 2.16. CO-FINANCING FROM THE STATE BUDGET AND EU FUNDS

State budget co-financing and EU funding is recognised at fair value if there is reasonably certainty that funds will be received, and it can be reasonably argued that the *Group* will be able to meet all the conditions attached to the receipt of these funds.

Co-financing from the state budget and EU funds attributable to assets (property, plant and equipment) is presented in the balance sheet under "Deferred income" and recognised periodically in the Statement of comprehensive income pro rata to the depreciation of the relevant assets (property, plant and equipment) over their useful lives.

# 2.17. RELATED PARTIES

Related parties include the state, the members of the Board and Council of the *Group* companies, their close family members and companies in which these persons have control or significant influence.

# 2.18. EVENTS AFTER THE BALANCE SHEET DATE

The financial statements reflect events after the end of the reporting year that provide additional information about the *Group's* financial position at the balance sheet date (adjusting events). If events after the end of the reporting year are not adjusting, they are disclosed in the notes to the financial statements only if they are material.

# 2.19. EMPLOYEE BENEFITS

### Social insurance and pension plan contributions

The *Group* makes compulsory national social insurance contributions to the state-funded pension scheme in accordance with Latvian laws. The state-funded pension scheme is a defined contribution pension plan, and the *Group* is required to make contributions of statutory amount. The *Group* does not incur any additional legal or constructive obligations to make additional payments if the state-funded pension scheme is unable to meet its obligations to employees. Social insurance contributions are recognised as an expense on an accrual basis and recognised under Personnel expenses. Under Cabinet Regulation No. 786 Regulations on National Social Insurance Contribution Rates by Type of State Social Insurance of 17 December 2020, in 2022 and 2021 70.14% of the compulsory national social insurance contributions were paid to fund the state-defined contribution pension system.

# 2.20. BASIS OF CONSOLIDATION

A subsidiary of the *Group* is an entity whose financial or operational activities are controlled by the parent of the *Group*. Control is deemed to exist when the *Group*'s parent company owns more than 50%
of the shares or equity interests in a subsidiary and has the power to control all operating decisions of that subsidiary.

The financial statements of the *Group's* subsidiaries are consolidated from the date on which the parent obtains control of the subsidiary and are derecognised when that control ceases.

The financial statements of the companies are prepared using uniform accounting and financial policies for similar transactions and other events in similar circumstances. If necessary, the *Group's* subsidiaries' accounting and measurement methods may be changed to conform to the *Group's* accounting and measurement methods. The consolidated financial statements include the annual accounts of the parent company and subsidiaries for 2022. The annual reporting periods of the *Group* companies are the same and coincide with the calendar year.

Transactions between the *Group* companies, intercompany balances and unrealised gains or losses on transactions between the *Group* companies are eliminated.

#### 3. SIGNIFICANT ASSUMPTIONS AND JUDGEMENTS

The preparation of financial statements in accordance with IFRS requires making material assumptions. It also requires *Management* to make judgements, estimates and assumptions in the preparation of the financial statements that affect the application of the *Group's* accounting policies.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures in the Notes to the financial statements 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 that are more likely to be affected by assumptions are *Management's* assumptions and estimates in determining the recoverable amount of assets and the amount of provisions.

#### Useful life of property, plant and equipment

The *Group* assesses the remaining useful lives of its property, plant and equipment at the end of each reporting period. Based on the most recent valuations performed by the *Group's* parent company's Finance Department, the current useful lives are consistent with the *Group's* property, plant and equipment's actual useful lives.

#### Provisions

In estimating the amount of the provision, *Management* relies on estimates of the probable amount of the liability and the time at which the liability is expected to be settled. If these events do not materialise or materialise differently, the actual cost may differ from the estimate. More detailed information on the assumptions regarding provisions is provided in Note 23.

#### Impairment of property, plant and equipment

An impairment loss is recognised for property, plant and equipment not used for business operations and for those assets where the expected future economic benefits are significantly lower than the carrying amount. The most significant impairment amount recognised in respect of buildings, structures and tracks is based on the future cash flows from the use of these assets in the provision of services.

For the purposes of impairment testing, all of the *Group's* parent company's assets are divided into cash-generating units - geographical rail track sections. For each section, indicators of impairment were assessed and for sections with indicators of impairment, an impairment test was carried out. The main indicators of impairment were the absence or reduction of passenger traffic on a particular section and a significant decrease in freight traffic. As a result of the impairment calculation, impairment for a total amount of EUR 5.8 million was recognised in 4 sections.

Future expected cash flows are based on the 2022 actual and 2023 budget data, extrapolated over the next 10 years. The 10-year calculation period is used due to the specific nature of the infrastructure carrier's assets, which are long-term assets that provide returns over a long period of time. In discounting the future projected cash flows, a weighted average cost of capital (WACC) of 6.75% was applied, which is appropriate as a weighted average cost of capital for an infrastructure manager. WACC is the most important indicator influencing the impairment estimate. A WACC of 7.75% (up 1%) would increase the impairment by EUR 4 million. However, at a WACC of 5.75% (a 1% reduction), no impairment would be recognised.

In addition to the assessment at the cash-generating unit level, an overall impairment assessment was performed to determine the *Group's* parent company's total value in use. As a result of this assessment, no additional impairment needs to be recognised in 2021 and 2022. Future expected cash flows are based on the 2022 actual and 2023 budget data, extrapolated over the next 10 years. The 10-year calculation period is due to the specific nature of the infrastructure carrier's assets, which are long-term assets that provide returns over a long period of time. In 2022, the discount rate applied in the total impairment calculation (WACC) was 6.75%.

Again, the WACC is the most important indicator affecting the impairment estimate. Assessing the sensitivity of the calculation to changes in the WACC, it is concluded that an impairment should be recognised at a WACC above the threshold of 7.52%, i.e., 0.77% higher.

#### **Financial stability payment**

The main task of *Latvijas dzelzceļš* is to ensure the managing of the national public-use railway infrastructure and provide safe, high quality and efficient railway and logistics services in the interests of the Latvian state and economy. The Multi-Annual Agreement with the Ministry of Transport was concluded for this purpose, setting out the procedure for ensuring the financial stability (see Note 4). The existing agreement expired on 31 December 2022. Work is underway to conclude a new agreement for the future periods.

## 4. REVENUE

|   |                    | (EUR'000)    |
|---|--------------------|--------------|
| TYPES OF OPERATION  | 2022               | 2021         |
| Revenue from contracts with customers (IFRS 15) :                         |                    |              |
| Freight transportation services   | 125 897            | 122 415      |
| Forwarding services   | 19 214             | 14 192       |
| Charge for the use of the public-use railway infrastructure               | 16 074             | 18 098       |
| Electricity distribution and sale services                                | 10 435             | 5 808        |
| Fuel and oil sale   | 5 817              | 2 805        |
| Rolling stock repairs and maintenance                                     | 4 895              | 3 284        |
| Ancillary services of the infrastructure manager                          | 3 948              | 3 668        |
| Security services   | 2 308              | 2 151        |
| Principal's services  | 1 210              | 1 299        |
| Services at passenger stations  | 1 059              | 1 003        |
| Electronic communications services  | 672                | 542          |
| Specific services related to the maintenance and repair of infrastructure | 653                | 1 322        |
| Information technology services   | 590                | 532          |
| Traction services   | 38                 | 138          |
| Construction services   | 87                 | 87           |
| Other services  | 3 186              | 4 150        |
| Other types of revenue:   |                    |              |
| Revenue from railway infrastructure maintenance (state budget funding)    | 30 114             | 30 068       |
| Revenue for ensuring financial stability <sup>*</sup>                     | 24 359             | 30 664       |
| Rental services   | 4 021              | 6 694        |
| Revenue from maintenance of service sites (state budget funding)          | 211                | 257          |
| Total   | 254 788            | 249 177      |
| *The required financial stability payment of FLIR 24 359 thousan          | nd receivable in 2 | 022 has been |

\*The required financial stability payment of EUR 24 359 thousand receivable in 2023 has been recognised in the Statement of financial position under "Accrued income", based on the obligations and responsibilities set out in the Multi-Annual Agreement. In 2022, *Latvijas dzelzceļš* received EUR 40 167 thousand (EUR 9 504 thousand for 2020 and EUR 30 664 thousand for 2021, i.e., the full financial stability payment for 2021 and all the remaining payment for 2020).

## 5. OTHER INCOME

|  |        | (EUR'000) |
|--|--------|-----------|
|  | 2022   | 2021      |
| Gradual recognition of deferred income                                 | 17 814 | 17 584    |
| Payments from other railway administrations for bundled<br>settlements | 2 775  | 2 697     |
| Gain on sale of property, plant and equipment                          | 1 556  | 868       |
| Gain on disposal of long-term assets held for sale                     | 1 032  | 1 005     |
| Gain on sale of inventories  | 374    | 3 759     |
| Fines and late payment fines   | 349    | 234       |
| Foreign currency exchange rate fluctuations                            | 189    | 202       |
| Reduction of provisions (see Note 23)                                  | 53     | 185       |
| Income from the "Pedestrian Tunnel in Ogre" construction<br>project*   | 1 472  | -         |
| Other income   | 1 966  | 822       |
| Total  | 27 580 | 27 356    |

\* revenue from the transfer the "Pedestrian Tunnel in Ogre" to the Ministry of Transport.

## 6. COST OF GOODS, MATERIALS AND SERVICES

|                  |        | (EUR'000) |
|------------------|--------|-----------|
|                  | 2022   | 2021      |
| Heating, fuel    | 32 294 | 21 289    |
| Electricity      | 15 677 | 9 069     |
| Cost of material | 10 873 | 9 158     |
| Other expenses   | 25 479 | 22 366    |
| Total            | 84 323 | 61 882    |

## 7. PERSONNEL EXPENSES

|  |         | (EUR'000) |
|--|---------|-----------|
|  | 2022    | 2021      |
| Salaries and wages   | 97 827  | 101 049   |
| National social insurance mandatory contributions                          | 23 181  | 25 255    |
| Other mandatory social insurance contributions                             | 2 661   | 761       |
| Severance pay  | 649     | 6 103     |
| Employee supplementary pension insurance                                   | 561     | 611       |
| Accrued liability for unused annual leaves                                 | (736)   | 856       |
| Other personnel expenses   | 171     | 189       |
| Total  | 124 314 | 134 824   |
| of which remuneration of members of the <i>Company's</i> Board and Council | 1 610   | 1 480     |
| incl. remuneration for work  | 1 303   | 1 198     |
| national social insurance compulsory contributions                         | 307     | 282       |

In 2022 the average number of Group's employees was 6 482 (7 151 employees in 2021).

## 8. DEPRECIATION, AMORTISATION AND IMPAIRMENT

|   |        | (EUR'000) |
|---|--------|-----------|
|   | 2022   | 2021      |
| Depreciation of property, plant and equipment and intangible assets | 53 575 | 53 759    |
| Impairment of property, plant and equipment and intangible assets   | 5 309  | 4 207     |
| Depreciation of right-of-use assets                                 | 2 435  | 2 501     |
| Changes in provisions for obsolete materials                        | (431)  | (54)      |
| Total   | 60 888 | 60 413    |

## 9. OTHER EXPENSES

|        | (EUR'000)  |
|--------|--|
| 2022   | 2021   |
| 9 848  | 10 700   |
| 1 472  | -  |
| 525    | 494  |
| 256    | 164  |
| 140    | 140  |
| 94     | 69   |
| 61     | 16   |
| 29     | 44   |
| 12     | 15   |
| 20     | 13   |
| 691    | 578  |
| 13 148 | 12 233   |
|        | 9 848<br>1 472<br>525<br>256<br>140<br>94<br>61<br>29<br>12<br>20<br>691 |

## **10. FINANCE COSTS**

|  |       | (EUR'000) |
|--|-------|-----------|
|  | 2022  | 2021      |
| Bank interest, including interest on non-current borrowings  | 1 671 | 1 754     |
| Interest expense on lease transactions                       | 87    | 120       |
| Late payment interest for extending the tax payment deadline | 45    | -         |
| Finance costs  | 1 803 | 1 874     |

## 11. CORPORATE INCOME TAX

#### Corporate income tax movement table for the reporting year

|                                       |       | (EUR'000) |
|---------------------------------------|-------|-----------|
|                                       | 2022  | 2021      |
| (Overpaid) 1 January                  | -     | (44)      |
| Liabilities at 1 January              | 3     | -         |
| Calculated for the reporting year     | 244   | 32        |
| Paid in the reporting year            | (244) | (29)      |
| Transferred to other taxes            | -     | 32        |
| Transferred to the single tax account | -     | 12        |
| Liabilities at 31 December            | 3     | 3         |

#### Deferred tax expense

The *Group's* deferred tax is calculated on the future corporate income tax payable on the 2022 retained earnings of subsidiaries that is expected to be paid to the parent company in dividends in future years, based on the amount of dividends from public capital companies as determined by the country.

(EUR'000)

|   |       | (LON 000) |
|---|-------|-----------|
|   | 2022  | 2021      |
| Deferred tax liability at the beginning of the year     | 1 847 | 466       |
| Increase in deferred tax liability                      | 16    | 1 381     |
| Deferred tax liability at the end of the reporting year | 1 863 | 1 847     |

## **12.INTANGIBLE ASSETS**

|   |        | (EUR'000) |
|---|--------|-----------|
| LICENCES AND RIGHTS                                   | 2022   | 2021      |
| Historical cost at the beginning of the year          | 8 904  | 8 627     |
| Additions   | 684    | 352       |
| Reclassified from property, plant and equipment       | 4 021  | -         |
| Disposals   | (47)   | (75)      |
| Historical cost at the end of the year                | 13 562 | 8 904     |
| Accumulated depreciation at the beginning of the year | 7 065  | 6 573     |
| Amortisation charge                                   | 657    | 566       |
| Reclassified from property, plant and equipment       | 2 383  | -         |
| Disposals   | (47)   | (74)      |
| Accumulated depreciation at the end of the year       | 10 058 | 7 065     |
| Impairment  | (16)   | (16)      |
| NBV at the beginning of the year                      | 1 823  | 2 054     |
| NBV at the end of the year                            | 3 488  | 1 823     |

(EUR'000)

## 13. PROPERTY, PLANT AND EQUIPMENT

|   | Land<br>plots | Buildings,<br>structures<br>and perennial<br>plantings | Tracks   | Long-term<br>investments<br>in leased<br>assets | Plant and machinery | Freight wagons | Computer<br>equipment and<br>their fittings,<br>communications<br>equipment,<br>photocopiers and<br>their fittings | Other property,<br>plant and<br>equipment | Cost of<br>construction in<br>progress | Total     |
|---|---------------|--|----------|---|---------------------|----------------|--|---|--|-----------|
| Historical cost / revalued amount at 01.01.2022.  | 1 361         | 152 937  | 640 049  | 139   | 393 515             | 183 332        | 30 296   | 30 026                                    | 4 161                                  | 1 435 816 |
| Additions and construction of<br>property, plant and equipment  | -             | 1 173  | 4 950    | 22  | 4 712               | 3 975          | 1 531  | 835                                       | 7 910                                  | 25 108    |
| Receipt of property, plant and<br>equipment from the Ministry of<br>Transport (as part of the Rail<br>Baltica project, see Note 26) | -             | 588  | -        | -   | 969                 | -              | 4 523  | 4   | -                                      | 6 084     |
| Reclassified (see Note 12)  | -             | (11)   | 14       | -   | 35                  | -              | (4 021)  | -   | (38)                                   | (4 021)   |
| Write-off of property, plant and equipment  | -             | (1 977)  | (2 018)  | -   | (1 692)             | (9607)         | (783)  | (727)                                     | (50)                                   | (16 854)  |
| Reclassified from assets held<br>for sale (see Note17)  | -             | -  | -        | -   | 2 504               | -              | -  | -   | -                                      | 2 504     |
| Historical cost/ revalued amount at 31.12.2022  | 1 361         | 152 710  | 642 995  | 161   | 400 043             | 177 700        | 31 546   | 30 138                                    | 11 983                                 | 1 448 637 |
| Accumulated depreciation at<br>01.01.2022   | -             | 60 656   | 315 655  | 81  | 176 289             | 100 549        | 23 226   | 20 282                                    | -                                      | 696 738   |
| Depreciation charge   | -             | 4 281  | 26 583   | 23  | 14 186              | 3 959          | 2 289  | 1 475                                     | -                                      | 52 796    |
| Reclassified (see Note 12)  | -             | -  | -        | -   | -                   | -              | (2 383)  | -   | -                                      | (2 383)   |
| Write off of depreciation   | -             | (1 913)  | (1 924)  | -   | (1 402)             | (7 285)        | (782)  | (695)                                     | -                                      | (14 001)  |
| Accumulated depreciation at 31.12.2022  | -             | 63 024   | 340 314  | 104   | 189 073             | 97 223         | 22 350   | 21 062                                    | -                                      | 733 150   |
| Impairment at 01.01.2022  | (38)          | (4 066)  | (16 911) | -   | (7 050)             | -              | (484)  | (210)                                     | -                                      | (28 759)  |
| Impairment recognised*  | -             | (88)   | (5 901)  | -   | (3)                 | (363)          | -  | -   | -                                      | (6 355)   |
| Impairment at 31.12.2022  | (38)          | (4 154)  | (22 812) | -   | (7 053)             | (363)          | (484)  | (210)                                     | -                                      | (35 114)  |
| Carrying value at 01.01.2022  | 1 323         | 88 215   | 307 483  | 58  | 210 176             | 82 783         | 6 586  | 9 534                                     | 4 161                                  | 710 319   |
| Carrying value at 31.12.2022  | 1 323         | 85 532   | 279 869  | 57  | 203 917             | 80 114         | 8 712  | 8 866                                     | 11 983                                 | 680 373   |

\* Impairment of property, plant and equipment of EUR 6 355 thousand was recognised in 2022, including:

 Impairment of EUR 5 843 thousand in the amount of EUR 2.8 million for property, plant and equipment on four railway sections (Ciekurkalns - Krasta, Daugavpils - Indra, Karsava - Kleperova and Rezekne - Daugavpils) where freight transportation volumes have decreased significantly;

• Impairment of EUR 363 thousand was recognised for 9 individual assets and relates to potential losses due to the risk of non-return of wagons from the territory of Ukraine;

• Impairment of EUR 149 thousand has been recognised for assets for which the expected future economic benefits are significantly lower than their carrying amount.

In the reporting period and the comparative periods, 15 thousand hectares of land registered in the name of the Ministry of Transport (mostly railway land, which is part of the railway public use infrastructure and is intended for the location of railway infrastructure facilities to ensure the development and safe operation of railway infrastructure) was transferred for use to *Latvijas dzelzce*!š.

|  | Land<br>plots | Buildings,<br>structures<br>and perennial<br>plantings | Tracks   | Long-term<br>investments in<br>leased assets | Plant and machinery | Wagons for<br>freight transport | Computing<br>machinery and<br>equipment,<br>communications<br>equipment,<br>photocopiers and<br>equipment | Others<br>Fixed assets | Cost of<br>construction in<br>progress | (EUR'000)<br>Total |
|--|---------------|--|----------|--|---------------------|---------------------------------|---|------------------------|--|--------------------|
| Historical cost/ revalued<br>amount at 01.01.2021              | 1 365         | 152 063  | 637 015  | 112  | 416 802             | 183 340                         | 31 077  | 29 963                 | 1 311                                  | 1 453 048          |
| Additions and construction of<br>property, plant and equipment | 6             | 1 282  | 5 182    | 27   | 3 751               | -                               | 1 628   | 977                    | 2 850                                  | 15 703             |
| Reclassified   | -             | (2)  | -        | -  | 9                   | (8)                             | -   | 1                      | -                                      | -                  |
| Write-off of property, plant and<br>equipment                  | (10)          | (406)  | (2 148)  | -  | (2 880)             | -                               | (2 409)   | (915)                  | -                                      | (8 768)            |
| Reclassified to assets held for<br>sale                        | -             | -  | -        | -  | (24 167)            | -                               | -   | -                      | -                                      | (24 167)           |
| Historical cost/ revalued<br>amount at 01.01.2021              | 1 361         | 152 937  | 640 049  | 139  | 393 515             | 183 332                         | 30 296  | 30 026                 | 4 161                                  | 1 435 816          |
| Accumulated depreciation at<br>01.01.2021                      | -             | 56 905   | 290 685  | 71   | 184 765             | 96 258                          | 23 145  | 19 635                 | -                                      | 671 464            |
| Depreciation charge  | -             | 4 096  | 26 815   | 10   | 14 073              | 4 299                           | 2 483   | 1 532                  | -                                      | 53 308             |
| Reclassified   | -             | -  | -        | -  | 7                   | (8)                             | -   | 1                      | -                                      | -                  |
| Write off of depreciation                                      | -             | (345)  | (1 845)  | -  | (2 684)             | -                               | (2 402)   | (886)                  | -                                      | (8 162)            |
| Reclassified to assets held for sale                           | -             | -  | -        | -  | (19 872)            | -                               | -   | -                      | -                                      | (19 872)           |
| Accumulated depreciation at 31.12.2021                         | -             | 60 656   | 315 655  | 81   | 176 289             | 100 549                         | 23 226  | 20 282                 | -                                      | 696 738            |
| Impairment at 01.01.2021                                       | (38)          | (2 495)  | (15 220) | -  | (6 789)             | -                               | -   | (148)                  | -                                      | (24 690)           |
| Impairment recognised/<br>(reversal of impairment)             | -             | (1 571)  | (1 691)  | -  | (383)               | -                               | (484)   | (62)                   | -                                      | (4 191)            |
| Reclassified to assets held for sale                           | -             | -  | -        | -  | 122                 | -                               | -   | -                      | -                                      | 122                |
| Impairment at 31.12.2021                                       | (38)          | (4 066)  | (16 911) | -  | (7 050)             | -                               | (484)   | (210)                  | -                                      | (28 759)           |
| Carrying value at 01.01.2021                                   | 1 327         | 92 663   | 331 110  | 41   | 225 248             | 87 082                          | 7 932   | 10 180                 | 1 311                                  | 756 894            |
| Carrying value at 31.12.2021                                   | 1 323         | 88 215   | 307 483  | 58   | 210 176             | 82 783                          | 6 586   | 9 534                  | 4 161                                  | 710 319            |

Impairment was recognised in respect of 523 individual assets that are not used in the business and are not realisable/ whose realisable value is expected to be less than the carrying amount.

## 14. RIGHT-OF-USE ASSETS

(EUR'000)

|  | Right-of-use land<br>plots | Right-of-use<br>buildings and<br>structures | Right-of-use track | Right-of-use plant<br>and machinery | Right-of-use<br>computer equipment<br>and their fittings,<br>communications<br>equipment,<br>photocopiers and<br>their fittings | Right-of-use of other<br>property, plant and<br>equipment | Total  |
|--|----------------------------|---|--------------------|-------------------------------------|---|---|--------|
| Historical cost at 01.01.2022          | 473                        | 4 845                                       | 2 497              | 628                                 | 1 020   | 4 799   | 14 262 |
| New lease agreements                   | 31                         | -   | -                  | -                                   | -   | 207   | 238    |
| Contract amendments and termination    | (30)                       | (50)  | -                  | -                                   | -   | (410)   | (490)  |
| Historical cost at 31.12.2022          | 474                        | 4 795                                       | 2 497              | 628                                 | 1 020   | 4 596   | 14 010 |
| Accumulated depreciation at 01.01.2022 | 196                        | 1 555                                       | 1 497              | 376                                 | 728   | 1 957   | 6 309  |
| Depreciation charge                    | 72                         | 559   | 507                | 128                                 | 243   | 1 063   | 2 572  |
| Write off of depreciation              | (20)                       | -   | -                  | -                                   | -   | (408)   | (428)  |
| Accumulated depreciation at 31.12.2022 | 248                        | 2 114                                       | 2 004              | 504                                 | 971   | 2 612   | 8 453  |
| Carrying value at 01.01.2022           | 277                        | 3 290                                       | 1 000              | 252                                 | 292   | 2 842   | 7 953  |
| Carrying value at 31.12.2022           | 226                        | 2 681                                       | 493                | 124                                 | 49  | 1 984   | 5 557  |

#### (EUR'000)

|  | Right-of-use land<br>plots | Right-of-use<br>buildings and<br>structures | Right-of-use track | Right-of-use plant<br>and machinery | Right-of-use<br>computer equipment<br>and their fittings,<br>communications<br>equipment,<br>photocopiers and<br>their fittings | Right-of-use of other<br>property, plant and<br>equipment | Total  |
|--|----------------------------|---|--------------------|-------------------------------------|---|---|--------|
| Historical cost at 01.01.2021          | 410                        | 3 110                                       | 4 232              | 628                                 | 1 020   | 5 074   | 14 474 |
| New lease agreements                   | 64                         | 97  | -                  | -                                   | -   | 188   | 349    |
| Contract amendments and<br>termination | (1)                        | 1 638                                       | (1 735)            | -                                   | -   | (463)   | (561)  |
| Historical cost at 31.12.2021          | 473                        | 4 845                                       | 2 497              | 628                                 | 1 020   | 4 799   | 14 262 |
| Accumulated depreciation at 01.01.2021 | 124                        | 946   | 1 044              | 249                                 | 486   | 1 286   | 4 135  |
| Depreciation charge                    | 72                         | 579   | 507                | 127                                 | 242   | 1 121   | 2 648  |
| Write off of depreciation              | -                          | 30  | (54)               | -                                   | -   | (450)   | (474)  |
| Accumulated depreciation at 31.12.2021 | 196                        | 1 555                                       | 1 497              | 376                                 | 728   | 1 957   | 6 309  |
| Carrying value at 01.01.2021           | 286                        | 2 164                                       | 3 188              | 379                                 | 534   | 3 788   | 10 339 |
| Carrying value at 31.12.2021           | 277                        | 3 290                                       | 1 000              | 252                                 | 292   | 2 842   | 7 953  |

(ELID'000)

## 15. RESEARCH AND DEVELOPMENT COSTS

|  |       | (EUR'000) |
|--|-------|-----------|
| COST   | 2022  | 2021      |
| Internal spending on research and development  | 1 352 | 1 616     |
| External spending on research and development outsourced to other institutions, companies, organisations | 15    | 196       |
| Total  | 1 367 | 1 812     |

## **16. INVENTORIES**

|  |               | (EUR'000)     |
|--|---------------|---------------|
|  | At 31.12.2022 | At 31.12.2021 |
| Spare parts                            | 8 424         | 6 525         |
| Road surface materials                 | 4 092         | 4 447         |
| Other materials                        | 3 880         | 3 851         |
| Heating and fuel                       | 2 398         | 2 460         |
| Other inventories and work in progress | 68            | 2 482         |
| Gross carrying amount                  | 18 862        | 19 765        |
| Impairment of obsolete materials       | (2 618)       | (3 143)       |
| Impairment of unused inventories       | (2 063)       | (2 063)       |
| Net book value                         | 14 181        | 14 559        |
|  |               |               |

## 17. ASSETS HELD FOR SALE

|                                      |               | (EUR`000)     |
|--------------------------------------|---------------|---------------|
|                                      | At 31.12.2022 | At 31.12.2021 |
| Wagons and locomotives held for sale | -             | 4 173         |
| Total                                | -             | 4 173         |

#### Assets held for sale

In 2021, the management of SIA "LDZ ritošā sastāva serviss" assessed the future use of 25 locomotives. Although the original plan was to lease these locomotives and continue to use them in operations, the Board of SIA "LDZ ritošā sastāva serviss" decided in July 2021 to realise the value of these locomotives by selling them. Following this decision, the locomotives were reclassified from property, plant and equipment to assets held for sale, as Management was actively engaged in sales activities and intended to complete the disposal of these assets within the year. In 2022, 10 diesel locomotives were sold at auction. The geopolitical situation prevented the sale of the remaining locomotives. The winner of the auction from Ukraine was not able to fulfil the terms of the contract and pay for the diesel locomotives. As diesel locomotives cannot currently be sold to Russia or Belarus due to sanctions restrictions and to Ukraine due to technological restrictions, the company's Management decided to reclassify 15 diesel locomotives, which had been reclassified from property, plant and equipment to non-current assets held for sale in July 2021 but were not sold during the year, back to property, plant and equipment having first reduced their value from EUR 2 783 thousand by the estimated depreciation of EUR 279 thousand in the reclassification period. As a result, an additional depreciation of EUR 279 thousand was recognised. The reclassified diesel locomotives are included in the Property, plant and equipment movement table at book value of EUR 2 504 thousand.

In the 2021 financial statements of SIA "LDZ CARGO", the rolling stock held for sale was reclassified from "Long-term investments - Property, plant and equipment" to "Current assets - Assets held for sale". Sale of diesel locomotives was finalised in January 2022.

#### One-off fair value measurements

Assets held for sale were measured at the lower of their carrying amount and fair value less costs to sell at the time of reclassification. The fair value of the assets is determined by reference to the selling price of other similar assets in the market. This measure corresponds to the Level 2 fair value measure in the fair value measurement hierarchy described in Note 28.

## 18. TRADE AND OTHER RECEIVABLES

|  |               | (EUR'000)     |
|--|---------------|---------------|
|  | At 31.12.2022 | At 31.12.2021 |
| Trade receivables                        | 10 263        | 7 164         |
| Overpaid value added tax                 | 2 384         | 2 948         |
| Doubtful debts                           | 1 154         | 1 059         |
| Other receivables                        | 2 775         | 2 574         |
| Gross carrying amount                    | 16 576        | 13 745        |
| Provisions for impairment of receivables | (1 154)       | (1 059)       |
| Book value                               | 15 422        | 12 686        |

#### Movement in provisions for impairment of receivables:

|   |       | (EUR'000) |
|---|-------|-----------|
|   | 2022  | 2021      |
| Provisions for impairment of receivables at the beginning of the year | 1 059 | 1 247     |
| Reduction of provisions due to debt recovery                          | (22)  | (21)      |
| Decrease in provisions due to the write-off of debts                  | (58)  | (328)     |
| Additional provisions created   | 175   | 161       |
| Provisions for impairment of receivables at year-end                  | 1 154 | 1 059     |

In order to estimate the expected credit losses, receivables were grouped according to their risk characteristics and days past due (details are also provided in Note 27). Expected loss rates are based on historical repayment rates, defined as the ratio of forgone debt to corresponding revenue over the last 36 months (from 2022 respectively 31 December or 1 January 2022). Historical loss ratios were adjusted to reflect current and forecast information on macroeconomic factors affecting the ability of customers to settle with *the Group*. GDP forecasts are considered the most important factor, as they have the most direct impact on changes in bad debts.

In making these calculations, at 31 December 2022 and 1 January 2022, the provisions for trade receivables that were either not past due or less than 6 months past due were immaterial and therefore recognised in the financial statements at zero.

Similar calculations were made for other receivables as well as for cash and cash equivalents, except that these calculations were not based on historical experience but on default rates from external credit rating agencies for similar borrowers or groups of borrowers. This approach has been chosen because the *Group* does not have historical loss data for these classes of financial assets. The calculations led to the conclusion that the credit quality of these assets is good, hence the expected credit losses at 31 December 2022 and 1 January 2022 are not material and therefore recognised at zero.

In accordance with the *Group's* accounting policy, for trade receivables overdue by more than 6 months, an allowance for expected credit losses of 100% is generally made, with adjustments made only to reflect the probable recoverability of such receivables.

## **19. ACCRUED REVENUE**

|                 |               | (EUR'000)     |
|-----------------|---------------|---------------|
|                 | At 31.12.2022 | At 31.12.2021 |
| Accrued revenue | 24 359        | 40 167        |
| Total           | 24 359        | 40 167        |

The funding required to achieve the financial stability in the reporting year is recognised in other revenue in accordance with the principles set out in IAS 20 Accounting for Government Grants. These principles require that a government grant be recognised when there is reasonable assurance that the conditions attached to the receipt of the grant have been fulfilled. In addition, grants relating to the recovery 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 *Latvijas Dzelzce*/š to receive the financial stability payment are the non-fulfilment of the financial stability conditions set out in the Multi-Annual Agreement. As the *Company* did not meet the financial stability conditions set out in the Multi-Annual Agreement in 2022, consequently, the criteria for receiving the financial stability payments under the Multi-Annual Agreement were met and accordingly the financial stability payments were recognised as revenue in 2022.

The required financial stability payment of EUR 24 359 000 to be received in 2023 has been recognised in the Statement of financial position as "Accrued income", based on the obligations and responsibilities set out in the Multi-Annual Agreement. In 2022, *Latvijas dzelzceļš* received EUR 40 167 thousand (EUR 9 503 thousand for ensuring the financial stability in 2020, and EUR 30 664 thousand – for 2020, i.e., the full financial stability payment for 2021 and the full remaining balance for 2020).

## 20. CASH AND CASH EQUIVALENTS

|                 |               | (EUR'000)     |
|-----------------|---------------|---------------|
|                 | At 31.12.2022 | At 31.12.2021 |
| Cash at bank    | 80 389        | 64 624        |
| Cash in transit | (1)           | (2)           |
| Total           | 80 388        | 64 622        |

## 21. SHARE CAPITAL

#### Registered and paid-up share capital of the Group's parent company

The share capital of *Latvijas Dzelzceļš* is EUR 327 621 636, consisting of three hundred twentyseven million six hundred twenty-one thousand six hundred thirty-six shares with a nominal value of EUR 1 (one euro) per share (at 31 December 2021: EUR 289 142 391). On 24 November 2022, the general meeting of shareholders decided to increase the share capital of *Latvijas dzelzceļš* by EUR 38 479 245 (Paragraph 3 of the minutes of the Decision No. A1.1./7-3, "On increasing the share capital of VAS "Latvijas dzelzceļš" and amendments to the Articles of Association"). On 14 December 2022, pursuant to the decision No 6-12/111244 of the Register of Enterprises of the Republic of Latvia, changes in the subscribed and paid-up share capital were registered in the Commercial Register. Share capital was increased by contributing reserves into it.

All shares are owned by the Republic of Latvia and have been fully paid up. Joint stock company shares are owned by the Ministry of Transport. All shares in the *Group's* parent company have the same right to receive dividends, liquidation quota and to voting rights at the general meeting.

## 22. REVALUATION RESERVE FOR LONG-TERM INVESTMENTS, OTHER RESERVES AND RETAINED EARNINGS

Wagons for freight transportation included in railway rolling stock are accounted for in the *Group* using the revaluation method. In 2013, these property, plant and equipment items were revalued and the increase in value was shown as a long-term investment revaluation reserve (net of tax effect). SIA "LDZ CARGO" carried out the valuation of a group of property, plant and equipment "Wagons for freight transportation" in 2022 using the market method, as a sufficiently active and liquid secondary market was identified for the majority of the valued property, plant and equipment, and market prices were used in the valuation. The valuation of the property, plant and equipment was carried out by an external certified valuer, estimating the likely market value of the wagons and using the residual replacement cost approach. The value of the wagons is therefore considered to be consistent with the Level 3 valuation technique. Fair value determined as at 30 November 2022, using the market method, was not materially different from the carrying amount of the assets.

Reserves consist of retained earnings b/f, which have been allocated to other reserves at the discretion of the shareholder to support the *Group's* development. Consequently, reserves and retained earnings b/f are not materially different and are therefore combined in a single balance sheet item. The use of the reserves and retained earnings of the *Group's* parent company is determined by the general meeting of shareholders of the *Group's* parent company.

|   |               | (EUR'000)     |
|---|---------------|---------------|
|   | At 31.12.2022 | At 31.12.2021 |
| Provisions for fines imposed by the Competition Council | 5 694         | 5 694         |
| Other provisions  | 144           | 132           |
| Total non-current portion                               | 5 838         | 5 826         |
| Other provisions  | 763           | 1 875         |
| Total current portion                                   | 763           | 1 875         |
| Total   | 6 601         | 7 701         |

## 23. PROVISIONS

#### Movement in provisions by type of provisions in 2022

|  |            |                           |                           | (EUR'000)        |
|--|------------|---------------------------|---------------------------|------------------|
|  | 01.01.2022 | INCREASE IN<br>PROVISIONS | DECREASE IN<br>PROVISIONS | At<br>31.12.2022 |
| Provisions for fines imposed by the Competition<br>Council     | 5 694      | -                         | -                         | 5 694            |
| Severance pay  | 997        | 498                       | (997)                     | 498              |
| Provisions for the cost of industrial injuries                 | 132        | 12                        | -                         | 144              |
| Provisions for possible losses from the litigation             | 21         | 82                        | -                         | 103              |
| Provisions for benefits until vesting of the<br>pension rights | 735        | -                         | (642)                     | 93               |
| Provisions for warranty repairs                                | 81         | -                         | (34)                      | 47               |
| Provisions for unsaved freight transportation                  | 41         |                           | (19)                      | 22               |
| Total  | 7 701      | 592                       | (1 692)                   | 6 601            |

In 2022, the provisions for severance pay of EUR 997 thousand established in 2021 were used up, which consisted of the provisions for severance pay of EUR 773 thousand created by *Latvijas dzelzceļš* and EUR 224 thousand for the provisions established by SIA "LDZ CARGO". In 2022, the provisions for severance pay of EUR 498 thousand was created for the planned optimisation measures of *Latvijas dzelzceļš* (EUR 145 thousand) and SIA "LDZ CARGO" (EUR 353 thousand) in 2023.

Provisions for the benefits until reaching the retirement age have decreased by EUR 642 thousand, EUR 398 thousand were spent on benefits, and EUR 244 thousand were transferred to the provisions created for severance pay.

|  | At 01.01.2021 | INCREASE IN<br>PROVISIONS | DECREASE IN<br>PROVISIONS | At<br>31.12.2021 |
|--|---------------|---------------------------|---------------------------|------------------|
| Provisions for fines imposed by the<br>Competition Council     | 5 694         | -                         | -                         | 5 694            |
| Severance pay  | -             | 997                       | -                         | 997              |
| Provisions for benefits until vesting of the<br>pension rights | -             | 735                       | -                         | 735              |
| Provisions for possible losses from litigation                 | 6             | 15                        | -                         | 21               |
| Other provisions   | 385           | 54                        | (185)                     | 254              |
| Total  | 6 085         | 1 801                     | (185)                     | 7 701            |

## Movement in provisions by type of provisions in 2021

On the basis of the action plans for reducing the staff levels in 2022 adopted by the management of SIA "LDZ CARGO" in 2021, provisions have been created to ensure the fulfilment of obligations arising from the application Clause 5.4 of the Collective bargaining agreement of Latvijas dzelzceļš Group, which provides for the payment of the benefit and payment up to the point when the employee is eligible to receive the old-age pension, and Clause 5.3 of the Collective bargaining agreement, which provides for the granting and payment of severance pay in the event of termination of employment in accordance with Article 100(5) and Article 101(1)(6) - (11) of the Labour Law. Provisions for benefits up to reaching the pension entitlement age calculated for 2021 amounted to EUR 735 thousand.

In 2021, provisions of EUR 997 thousand were created for severance pay, consisting of provisions of EUR 773 thousand for severance pay created by *Latvijas dzelzceļš*, and provisions of EUR 224 thousand created by SIA "LDZ CARGO".

In 2018, the Competition Council started procedure no. KL \5-5\18\30 "On the violation of the prohibition under Section 13(1) of the Competition Act in the activities of SIA "LDZ CARGO" and VAS "Latvijas dzelzceļš" on the rail freight market in Latvia". According to the decision of the Competition Council (CC) of 28.12.2020, SIA "LDZ CARGO" was fined jointly and severally with VAS "Latvijas dzelzceļš" in the amount of EUR 5 694 174. SIA "LDZ CARGO" considers that the decision was based on incorrect conclusions drawn due to a lack of understanding of the specific nature of the air carrier's activities. Against the decision of the Competition Council in case no. KL \5-5\18\30 was appealed to the Regional Administrative Court to be declared unfounded and annulled in its entirety. The Regional Administrative Court has initiated proceedings in Case No. A43001921, which are now pending. It is not possible to predict the outcome of the proceedings and to foresee additional risks related to possible claims by other persons whose rights may have been affected in the event that the Competition Council's decision is not annulled. In 2020, provisions of EUR 5 694 174 were made for this contingent loss. In 2021, the amount of the provision remained unchanged, as the circumstances of the case had not changed, and the outcome of the case was unknown.

## 24. BORROWINGS FROM CREDIT INSTITUTIONS

(EUR'000)

|   | At 31.12.2022 | At 31.12.2021 |
|---|---------------|---------------|
| Non-current borrowings from credit institutions | 66 309        | 90 557        |
| Current borrowings from credit institutions     | 24 247        | 30 059        |
| Total borrowings from credit institutions       | 90 556        | 120 616       |

Borrowings were received from AS "Swedbank", AB Nordea Bank, AS "SEB banka", Nordic Investment Bank, OP Corporate Bank branch in Latvia, and Luminor Bank AS branch in Latvia. In the reporting period, borrowings in the amount of EUR 30 060 thousand were repaid.

On 28 November 2022, Nordea Bank AB and Luminor Bank AS branch in Latvia signed an assignment agreement, as a result of which the loan granted by Nordea Bank AB became repayable to the assignee thereof - Luminor Bank AS branch in Latvia (from 30 December 2022).

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The *Company's* loan agreements with banks provide for certain financial indicators of VAS "*Latvijas dzelzceļš*" or the Consolidated financial statement indicators, which must be met during the term of the loan agreement. At 31 December 2021, at 31 December 2022 and at the beginning of 2023, none of the non-current borrowings was in default.

Latvijas dzelzceļš has not pledged its assets against the borrowings.

#### Borrowings repayable and interest rates at 31 December 2022

| CURRENCY OF THE LOAN | BORROWING, EUR'000 | INTEREST RATE              |
|----------------------|--------------------|----------------------------|
| EUR                  | 67 419             | 3M EURIBOR + 0.77% to 3.5% |
| EOR                  | 23 137             | 6M EURIBOR + 0.75% to 1.1% |
| Total                | 90 556             |                            |

#### Borrowings repayable and interest rates at 31 December 2021:

| CURRENCY OF THE LOAN | BORROWING, EUR'000 | INTEREST RATE              |
|----------------------|--------------------|----------------------------|
| EUR                  | 89 775             | 3M EURIBOR + 0.77% to 3.5% |
| EUR                  | 30 841             | 6M EURIBOR + 0.24% to 1.1% |
| Total                | 120 616            |                            |

#### Borrowings repayable and interest rates at 31 December 2021

|  |          | (EUR'000) |
|--|----------|-----------|
|  | 2022     | 2021      |
| Borrowings and calculated interest at the<br>beginning of the reporting period | 120 699  | 158 938   |
| Borrowings during the reporting period   | -        | 10 541    |
| Calculated interest for the reporting period                                   | 1 671    | 1 754     |
| Repayment of borrowings during the reporting period                            | (30 060) | (48 753)  |
| Interest paid during the reporting period                                      | (1 549)  | (1 781)   |
| Borrowings and calculated interest at the end of<br>the reporting period       | 90 761   | 120 699   |

# 25. TAXES AND NATIONAL SOCIAL INSURANCE MANDATORY CONTRIBUTIONS

|  |                                      |                                |                                      | (EUR'000)                      |
|--|--------------------------------------|--------------------------------|--------------------------------------|--------------------------------|
| TYPE OF TAX  | TAX<br>LIABILITIES (+)<br>31.12.2022 | TAX OVERPAID (-)<br>31.12.2022 | TAX<br>LIABILITIES (+)<br>31.12.2021 | TAX OVERPAID (-)<br>31.12.2021 |
| National social insurance<br>mandatory contributions | 15 066                               | -                              | 15 683                               | -                              |
| Personal income tax                                  | 6 269                                | -                              | 6 489                                | -                              |
| Value added tax                                      | 5 034                                | (2 384)                        | 5 795                                | (2 948)                        |
| Excise duty  | 726                                  | -                              | 1 071                                | _                              |
| Stamp duty for the storage of<br>security reserves   | 28                                   | -                              | 27                                   | -                              |
| Natural resource tax                                 | 25                                   | -                              | 29                                   | -                              |
| Corporate income tax                                 | 3                                    | -                              | 3                                    | -                              |
| Business risk stamp duty                             | 2                                    | -                              | 2                                    | -                              |
| Company light passenger car tax                      | 1                                    | -                              | -                                    | -                              |
| Balance on the single tax account                    | -                                    | (23)                           | -                                    | (20)                           |
| Total  | 27 154*                              | (2 407)                        | 29 099                               | (2 968)                        |

\*breakdown of liabilities at 31.12.2022: Non-current – EUR 6 824 thousand, current – EUR 20 330 thousand.

The Group had no tax arrears to the budget as at 31.12.2022.

In accordance with the decision of the State Revenue Service dated 20.12.2022 "On the extension of the payment term", the amounts of income tax and value added tax of Latvijas dzelzceļš with payment terms of more than one year were recognised under non-current liabilities. Another five-year extension of the tax payment term was again granted for tax amounts arising during the pandemic emergency COVID -19.

## 26. DEFERRED INCOME

|  |               | (EUR'000)     |
|--|---------------|---------------|
|  | At 31.12.2022 | At 31.12.2021 |
| Non-current portion of deferred income<br>(EU fund and the state budget funding) | 265 379       | 250 142       |
| Other deferred income  | 66            | 67            |
| Total non-current portion  | 265 445       | 250 209       |
| Current portion of deferred income<br>(EU fund and the state budget funding)     | 19 360        | 19 055        |
| Other deferred income  | 879           | 766           |
| Total current portion  | 20 239        | 19 821        |
| Total deferred income  | 285 684       | 270 030       |

The majority of deferred income is made up of EU funds and state budget funding received for the development of the railway infrastructure.

## Movement in EU fund and state budget project funding in 2022 for property, plant and equipment constructed with the funding of EU funds:

| DEFERRED<br>INCOME         | BALANCE<br>01.01.2022. | RECLASSIFIED<br>(TRANSFERRED) | FUNDS<br>RECEIVED | TRANSFER OF<br>FUNDS TO A<br>PARTNER | DECREASE IN<br>THE AMOUNT OF<br>THE FIXED<br>ASSETS<br>DEPRECIATION | (EUR'000)<br>BALANCE<br>31.12.2022. |
|----------------------------|------------------------|-------------------------------|-------------------|--------------------------------------|---|-------------------------------------|
| Non-<br>current<br>portion | 250 142                | (20 945)                      | 36 264            | (82)                                 | -   | 265 379                             |
| Current portion            | 19 055                 | 20 945                        | -                 | -                                    | (20 640)  | 19 360                              |
| Total                      | 269 197                | -                             | 36 264            | (82)                                 | (20 640)  | 284 739                             |

Payments received from the funding of EU funds in 2022:

- EUR 5 358 thousand for the project "Modernisation of the Riga railway junction Sarkandaugava-Mangali-Ziemelblazma",
- EUR 11 470 thousand for the project "Modernisation of railway passenger infrastructure",
- EUR 11 588 thousand for the project "Modernisation of railway infrastructure to increase train speeds",
- EUR 1 542 thousand for the project "Installation of fencing and pedestrian crossings at railway infrastructure sites" and
- EUR 222 thousand for the project "Building an interoperable railway system in the Baltic States".

Recognition of the cost of property, plant and equipment received from the Ministry of Transport for the reconstruction of the Rail Baltica project in the amount of EUR 6 084 thousand. According to the "Authorisation Agreement for Construction Works" concluded with SIA "Eiropas dzelzceļa līnijas", within the framework of the project "Development and Construction of the Construction Project for Rail Baltica Riga Railway Bridge, Embankment and Riga Central Passenger Station Complex", construction works are to be carried out on the structures owned or possessed by *Latvijas dzelzceļš* by moving, renovating, reconstructing, demolishing and constructing new structures. However, according to the "Acceptance – Transfer Confirmation" signed on 28.10.2022 for the reconstructed signalling system and mobile diesel generator at Riga Central Passenger Station, the Ministry of Transport transferred the costs related to the reconstruction of infrastructure objects to VAS "Latvijas dzelzceļš", which have been recognised in deferred income and will be written off against the depreciation of the objects during their useful life.

Within the "Building an interoperable railway system in the Baltic States" project, EUR 82 000 will be allocated for the development of a new railway system. *Latvijas dzelzceļš*, as the beneficiary of the funding, transferred EUR 1 million to Eesti Raudtee AS in accordance with the concluded cooperation agreement.

Movement in EU fund and the state budget project funding in 2021 for property, plant and equipment constructed with the funding of the EU funds:

| DEFERRED INCOME     | BALANCE AT<br>01.01.2021 | RECLASSIFIED<br>(TRANSFERRED) | FUNDS<br>RECEIVED | DECREASE IN THE<br>AMOUNT OF THE<br>FIXED ASSETS<br>DEPRECIATION | (EUR'000)<br>BALANCE<br>AT<br>31.12.2021 |
|---------------------|--------------------------|-------------------------------|-------------------|--|--|
| Non-current portion | 261 262                  | (17 298)                      | 6 178             | -  | 250 142                                  |
| Current portion     | 19 341                   | 17 298                        | -                 | (17 584)   | 19 055                                   |
| Total               | 280 603                  | -                             | 6 178             | (17 584)   | 269 197                                  |

## 27. FINANCIAL RISK MANAGEMENT

The *Group's* most significant financial instruments are borrowings from banks, other borrowings, cash and deposits with banks, and receivables and payables. The main purpose of these financial instruments is to finance the *Group's* operations. The *Group* also has a number of other financial assets and liabilities, such as trade receivables and payables to suppliers and contractors, which arise directly from its business activities.

The *Group* is exposed to market, credit and liquidity risks related to its financial instruments.

Financial risk management is carried out by the *Group's* Finance Department and the *Group's* Finance Committee.

#### The Group's financial instruments are classified into the following categories:

|   |               | (EUR'000)     |
|---|---------------|---------------|
|   | At 31.12.2022 | At 31.12.2021 |
| Financial assets at amortised cost  |               |               |
| Trade and other receivables, excluding advances   | 34 622        | 47 331        |
| Cash and cash equivalents   | 80 388        | 64 622        |
| Financial assets at fair value through profit or loss   |               |               |
| Long-term financial investments   | 74            | 84            |
| Total financial assets  | 115 084       | 112 037       |
| Financial liabilities at amortised cost   |               |               |
| Borrowings from credit institutions   | 90 556        | 120 616       |
| Trade and other payables, lease liabilities, excluding advances (including non-current portion) | 43 700        | 36 751        |
| Total financial liabilities   | 134 256       | 157 367       |

#### Market risk

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

#### Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates on the assets and liabilities of the entity. *The Group* is exposed to the risk of changes in market interest rates on its long-term floating rate debt.

All of the *Group's* borrowings are at floating rates. See Note 24 for a detailed description of borrowing rates. The *Group* manages interest rate risk by regularly assessing borrowing rates available in the market. When interest rates are available that are lower than the current rates, the *Group* considers the financial benefit of loan restructuring.

The Group companies do not use derivatives to manage interest rate risk.

#### Interest rate sensitivity

The table below shows the sensitivity of *the Group's* profit before tax to reasonably possible changes in interest rates at the end of each reporting period presented, with all other variables held constant. The *Group's* equity is unaffected, except for the result for the year.

|         |  | 2022  | 202  | (EUR'000)<br>21                          |
|---------|--|---|--|--|
|         | BASE RATE<br>INCREASE/DECREASE<br>(BASIS POINTS) | IMPACT ON PROFIT<br>BEFORE TAX<br>(EUR`000) | BASE RATE<br>INCREASE/DECREASE<br>(BASIS POINTS) | IMPACT ON PROFIT<br>BEFORE TAX (EUR`000) |
| EURIBOR | (+100)   | (90 556)                                    | (+100)   | (120 616)                                |
| EURIBUR | (-100)   | 90 556                                      | (-100)   | 120 616                                  |

#### **Currency risk**

Currency risk is the risk of loss arising from adverse movements in exchange rates on assets and liabilities denominated in foreign currencies. The currency risk to which the *Group* is exposed arises primarily from its operating activity – revenue and expenses are denominated in different currencies than the borrowings in foreign currencies. The *Company's* trade receivables and bank borrowings are mainly denominated *euro*.

The *Group's* financial instruments by currency at 31 December 2022 are presented in the table below:

| EUR'000     EUR'000       Trade and other receivables, excluding     0.4 070     0.4 |         |         |
|--|---------|---------|
| Trade and other reacively a cycluding  | EUR'000 | EUR'000 |
| advances 34 076 61   | 485     | 34 622  |
| Cash and cash equivalents 78 426 65  | 1 897   | 80 388  |
| Total financial assets112 502126   | 2 382   | 115 010 |
| Borrowings from credit institutions 90 556 -   | -       | 90 556  |
| Trade and other payables, except40 827143advances                                    | 2 730   | 43 700  |
| Total financial liabilities131 383143  | 2 730   | 134 256 |

The *Group's* financial instruments by currency at 31 December 2021 are presented in the table below:

|  | EUR     | USD     | CHF AND<br>OTHER<br>CURRENCIES | TOTAL   |
|--|---------|---------|--------------------------------|---------|
|  | EUR'000 | EUR'000 | EUR'000                        | EUR'000 |
| Trade and other receivables, excluding<br>advances | 46 849  | 238     | 244                            | 47 331  |
| Cash and cash equivalents                          | 61 142  | 163     | 3 317                          | 64 622  |
| Total financial assets                             | 107 991 | 401     | 3 561                          | 111 953 |
| Borrowings from credit institutions                | 120 616 | -       | -                              | 120 616 |
| Trade and other payables, except advances          | 35 462  | 223     | 1 066                          | 36 751  |
| Total financial liabilities                        | 156 078 | 223     | 1 066                          | 157 367 |

The main currency risk management tool used by *the Group* is the identification and use of the *Group*'s foreign currency assets to cover the *Group* companies' liabilities in foreign currencies.

The *Group* companies do not use derivative financial instruments to manage currency risks.

#### **Currency sensitivity**

The *Group* did not have any significant foreign currency balances during the year under review, so the potential impact of fluctuations in exchange rates was not material.

#### Credit risk

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

#### **Trade receivables**

Each *Group* company manages the credit risk of trade receivables in accordance with the *Group*'s policies. The solvency of buyers and customers is assessed before contracting. A number of *Group* companies hedge credit risk by receiving prepayments from their customers.

The *Group* continuously monitors its receivable balances to minimise the possibility of uncollectible receivables. Possible impairment of trade receivables is analysed on an ongoing basis. The *Group* has not received any collateral as security for trade receivables.

The *Group* assesses the concentration of its trade receivables as medium. At 31 December 2022, the Group had 3 customers (2021: 3 customers), each of whom owed *the Group* more than EUR 700 thousand. The share of the EU budget in the total budget for the period 2014-2020 amounted to EUR 1.3 billion and represented around 83.5% (2021: 89.1%) of total receivables.

The Group does not have an internal credit rating system for assessing trade receivables.

There were no material changes in expected credit losses on trade receivables during 2022. Trade receivables are written off when they are unlikely to be recovered. Indicators of impossibility of recovery include, inter alia, the debtor's inability to agree on a repayment schedule, compounded by the debtor's insolvency, bankruptcy or liquidation.

The Group is exposed to maximum credit risk, as shown in the table below:

|  | At 31.12.2022 | (EUR'000)<br>At 31.12.2021 |
|--|---------------|----------------------------|
| Cash and cash equivalents  | 80 388        | 64 622                     |
| Trade and other receivables (gross amount), excluding advances and prepayments | 35 776        | 48 390                     |
| Total  | 116 164       | 113 012                    |

Expected credit losses at 31 December 2022 are determined using the following expected credit loss rates:

|                                    |              |                                  |                                  |                                   | (EUR'000) |
|------------------------------------|--------------|----------------------------------|----------------------------------|-----------------------------------|-----------|
|                                    | Not past due | More than 30<br>days past<br>due | More than 90<br>days past<br>due | More than<br>120 days<br>past due | Total     |
| Expected credit loss rate          | 0,1%         | 2,0%                             | 11,0%                            | 91,0%                             | -         |
| Trade and other receivables, gross | 34 375       | 160                              | 29                               | 1 212                             | 35 776    |
| Expected credit losses             | (45)         | (3)                              | (3)                              | (1 103)                           | (1 154)   |

Expected credit losses at 31 December 2021 are determined using the following expected credit loss rates:

|                                    | Not past due | More than 30<br>days past<br>due | More than 90<br>days past<br>due | More than<br>120 days<br>past due | (EUR'000)<br>Total |
|------------------------------------|--------------|----------------------------------|----------------------------------|-----------------------------------|--------------------|
| Expected credit loss rate          | 0,2%         | 2,0%                             | 11,0%                            | 90,0%                             | -                  |
| Trade and other receivables, gross | 47 239       | 46                               | 11                               | 1 094                             | 48 390             |
| Expected credit losses             | (73)         | (1)                              | (1)                              | (984)                             | (1 059)            |

#### **Cash deposits**

Credit risk arising from the *Group's* cash deposits with banks is managed by the *Group's* Finance Committee in accordance with the *Group's* Financial management policy. Under this policy, the *Group's* unrestricted resources may only be invested in deposits or money market funds. Before placing funds with banks (deposits or current accounts), the Finance Department of the *Group's* parent company assesses the credit ratings of banks and the offered interest rates.

The Group's cash balances with banks as rated by Moody's:

|               |               | (EUR'000)     |
|---------------|---------------|---------------|
| CREDIT RATING | At 31.12.2022 | At 31.12.2021 |
| Aa3           | 617           | 9 891         |
| A3            | 77 874        | 54 730        |
| Baa2          | 642           | -             |
| Unrated       | 1 255         | 1             |
| Total         | 80 388        | 64 622        |

#### Liquidity risk

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

The *Group* Finance Committee and the Finance Directorate *of the Group*'s parent company manage liquidity risk by maintaining adequate cash reserves and ensuring sufficient funding through committed loans, credit lines, finance leases, etc., as well as by constantly monitoring forecast and actual cash flows and matching the maturity structure of financial assets and financial liabilities.

The *Group* prepares a long-term cash flow forecast for the year (by month) and an operating cash flow forecast for four weeks to ensure that the *Group* has sufficient cash to finance expected operating costs, settle financial liabilities and make necessary investments.

As at 31 December 2022, the Group's current assets exceeded its current liabilities by EUR 27 194 thousand, so that the total liquidity ratio - current assets to current liabilities - was 1.3. Current liabilities include deferred income of EUR 19 360 thousand related to investments of European Union projects and state budget funds in public railway infrastructure, so there is a low risk that financial resources will be needed to cover these liabilities. The total liquidity ratio, excluding deferred income related to investments in public railway infrastructure from EU projects and state budget funds, is 1.5.

The loan agreements concluded with the banks stipulate certain financial ratios that Latvijas dzelzceļš must maintain during the term of the agreement. As at 31 December 2021, 31 December 2022 and the beginning of 2023, none of the non-current borrowings were in default.

In the tables below, the *Group's* financial liabilities are analysed by maturity, based on the contractual undiscounted amounts of financial liabilities, including interest payments:

|  |                   |                   |                 |                      | (EUR'000) |
|--|-------------------|-------------------|-----------------|----------------------|-----------|
| AT 31 DECEMBER 2022  | UP TO 3<br>MONTHS | 3 TO 12<br>MONTHS | 1 TO<br>5 YEARS | MORE THAN<br>5 YEARS | TOTAL     |
| Borrowings from credit<br>institutions   | 6 896             | 20 204            | 67 969          | 2 027                | 97 096    |
| Other liabilities (including other<br>borrowings, trade and other<br>payables) | 27 252            | 11 565            | 3 555           | 1 286                | 43 658    |
| Total  | 34 148            | 31 769            | 71 524          | 3 313                | 140 754   |

|  |                   |                   |                |                    | (EUR'000) |
|--|-------------------|-------------------|----------------|--------------------|-----------|
| AT 31 DECEMBER 2021  | UP TO 3<br>MONTHS | 3 TO 12<br>MONTHS | 1 TO<br>5 GADI | MORE HOW<br>5 GADI | TOTAL     |
| Borrowings from credit<br>institutions   | 11 412            | 19 966            | 86 152         | 6 621              | 124 151   |
| Other liabilities (including other<br>borrowings, trade and other<br>payables) | 18 269            | 12 172            | 5 142          | 1 405              | 36 988    |
| Total  | 29 681            | 32 138            | 91 294         | 8 026              | 161 139   |

## 28. FAIR VALUE CONSIDERATIONS

IFRS 13 sets out a hierarchy of valuation techniques based on whether the valuation technique uses observable market data or unobservable market data. Observable market data are obtained from independent sources. Where market data are not observable, the valuation technique reflects the *Company's* assumptions about market conditions.

This hierarchy requires the use of observable market data if such are available. When remeasuring, the *Group* considers the relevant observable market prices, if practicable.

Fair value is the amount that would be received to sell an asset or paid to settle a liability in an ordinary transaction between market participants at the measurement date of that asset or liability.

The objective of fair value measurement, even when the market is not active, is to determine the transaction price at which market participants would be willing to sell an asset or assume a liability at a particular measurement date under current market conditions.

Various methods are used to determine the fair value of a financial instrument: quoted prices or valuation techniques that incorporate observable market inputs and are based on internal models. Based on the fair value hierarchy, all valuation techniques are categorised 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.

The classification of a financial instrument into the fair value hierarchy is made in two steps:

1. Classifying the inputs at each level to determine the fair value hierarchy;

2. Classifying own financial instruments on the basis of the lowest level if a significant part of their value is represented by lower-level inputs.

#### Quoted market prices - Level 1

The Level 1 valuation technique uses unadjusted quoted prices in an active market for identical assets or liabilities, where the quoted prices are readily available, and the price is representative of the actual market situation for arm's length transactions. *The Group* has no financial instruments rated at Level 1.

#### Valuation technique using market data – Level 2

In the models used in the Level 2 valuation technique, all relevant inputs are observable, directly or indirectly, on the asset or liability side. The model uses market data other than quoted prices included in Level 1, which are observable directly (i.e., the price) or indirectly (i.e., derived from the price).

Level 2 of the fair value hierarchy corresponds to the Group's cash and cash equivalents.

#### Valuation technique using market data that is not based on observable market data – Level 3

Valuation techniques using market data that are not based on observable market data (unobservable market data) are classified as Level 3. Unobservable market data are data that are not readily available in an active market, an illiquid market or due to the complexity of the financial instrument.

Level 3 data are mostly determined on the basis of observable market data of a similar nature, historical observations or analytical approaches.

#### Such financial assets and liabilities are included in Level 3:

|                                     |               | (EUR'000)     |
|-------------------------------------|---------------|---------------|
| ASSETS:                             | At 31.12.2022 | At 31.12.2021 |
| Trade receivables, net              | 34 622        | 47 331        |
| Long-term financial investments     | 74            | 84            |
| Total                               | 34 696        | 47 415        |
|                                     |               |               |
|                                     |               | (EUR'000)     |
| LIABILITIES:                        | At 31.12.2022 | At 31.12.2021 |
| Borrowings from credit institutions | 90 556        | 120 616       |
| Trade payables                      | 43 700        | 36 751        |
| Total                               | 134 256       | 157 367       |

#### Assets and liabilities, the fair value of which is disclosed

The carrying amounts of liquid and short-term (maturities of three months or less) financial instruments, such as cash and cash equivalents, short-term deposits, short-term trade receivables and trade payables, approximate their fair values.

The fair value of borrowings from credit institutions, finance lease liabilities and other non-current liabilities is estimated by discounting future cash flows using market interest rates. Given that the interest rates charged on borrowings from credit institutions, lease liabilities and other non-current liabilities are predominantly variable and not significantly different from market interest rates, and the risk premium applicable to *the Group* has not changed significantly, the fair value of non-current liabilities approximates their carrying amount.

#### Assets measured at fair value

The valuation analysis of the economic activity of the freight wagon fleet management was carried out in accordance with the provisions of the Commercial Code of the Republic of Latvia, the definition of the market value of assets formulated in the International Valuation Standards and in accordance with the provisions of IFRS 13.

The property, plant and equipment group "Wagons for freight transportation" is measured at market value. In accordance with IAS 16 "Property, Plant and Equipment" and having assessed the potential risks, SIA "LDZ CARGO" revalued the wagons in 2022. In addition to a revaluation to determine whether an item of property, plant and equipment is impaired, the company applied IAS 36 *Impairment of assets*. As a result of the calculations the disposal costs are negligible, the recoverable amount of the revalued asset is close to its current carrying amount, similar to the revaluation in 2022. No impairment of assets has been identified and there is no reason to believe that assets are materially impaired. The revaluation does not result in a material increase in assets and, in the current economic

environment, the increase in value may give a misleading view to users of the company's financial statements.

SIA "LDZ CARGO" carried out the valuation of the group of property, plant and equipment "Wagons for freight transportation" using the market method, as a sufficiently active and liquid secondary market was identified for the majority of the valued property, plant and equipment, and market prices were used in the valuation. The valuation of the property, plant and equipment was carried out by an external certified valuer, estimating the likely market value of the wagons at and using the residual replacement cost approach. The fair value determined using the market method at 30 November 2022 was not materially different from the carrying amount of the assets. The value of the wagons is therefore considered to be in line with the Level 2 valuation technique.

In addition, assets were tested for impairment by determining their value in use. The asset's value in use was determined as the estimated future cash flows expected to be generated by the asset in its present condition, discounted to present value. The calculation was based on a discount rate of 11.14% and an average EBITDA margin increase of 2.4%.

By performing a sensitivity analysis, which determines how the target variables are affected based on changes in other variables and modelling the impact of changes in the WACC on impairment, a WACC rate of 11.85% was determined at which the expected value of the asset reaches its present value.

However, by reducing the EBITDA margin by 0.3% at a WACC of 11.14%, the expected value of the asset reaches the real value of the asset. The recoverable amount of property, plant and equipment, as determined by the calculation, approximates its carrying amount and therefore no impairment should be recognised.

#### 29. CAPITAL MANAGEMENT

The Republic of Latvia owns 100% of the shares of VAS "Latvijas dzelzceļš".

The *Group's* objectives with regard to capital management are to ensure the *Group's* ability to continue as a going concern and to deliver the return on capital determined by the general meeting of shareholders of the Group companies. The state of Latvia, as the sole owner of the *Group's* share capital, has the right to make decisions related to the increase, decrease, payment of dividends or allocation of the *Group's* capital for development.

In the context of capital management, the *Group* assesses the leverage ratio. The *Group's* financial risk management policy does not set a minimum or maximum level for this indicator. The *Group* considers the financial conditions set by the banks in relation to the leverage ratio when drawing up short- and long-term financial plans and budgets.

|  |               | (EUR'000)     |
|--|---------------|---------------|
|  | At 31.12.2022 | At 31.12.2021 |
| Borrowings from credit institutions and other borrowings | 90 556        | 120 616       |
| Payables (including taxes)                               | 73 465        | 68 884        |
| Other liabilities  | 294 148       | 279 578       |
| Total commitments  | 458 169       | 469 078       |
| Equity   | 395 460       | 397 828       |
| Total liabilities and equity                             | 853 629       | 866 906       |
| Debt to total capital ratio                              | 54%           | 54%           |
| Equity to total liabilities                              | 86%           | 85%           |

## 30. CAPITAL EXPENDITURE COMMITMENTS

The *Group* also plans to make capital expenditure in property, plant and equipment and intangible assets in the next financial year, of which:

Key contracts signed but not yet finalised:

| THE NAME OF THE COUNTERPARTY,<br>SUBJECT OF THE CONTRACT  | DATE OF THE<br>CONTRACT | CONTRACT<br>PERFORMANCE<br>PERIOD | CONTRACT<br>AMOUNT EUR'000 |
|---|-------------------------|-----------------------------------|----------------------------|
| BMGS - FIMA General Partnership: Construction of<br>elevated platforms on the railway line Riga -<br>Jelgava  | 29.07.2021              | 29.12.2023                        | 6 283                      |
| BMGS - FIMA general partnership: Construction of<br>elevated platforms on the railway line Riga -<br>Tukums II  | 29.07.2021              | 13.12.2023                        | 5 394                      |
| BMGS - FIMA General Partnership: Construction of<br>elevated construction of platforms on the railway<br>line Riga -Krustpils                           | 29.07.2021              | 31.12.2023                        | 8 872                      |
| BMGS - FIMA General Partnership: Construction of<br>elevated construction of platforms on the railway<br>line Zemitani - Skulte (Kalngale-Skulte)       | 29.07.2021              | 29.12.2023.                       | 6 833                      |
| BMGS - FIMA General Partnership: Construction of<br>elevated construction of platforms on the railway<br>line Zemitani - Skulte (Zemitani-Vecaki, Alfa) | 30.07.2021              | 31.12.2023                        | 6 930                      |
| Leonard Weiss OU: Installation of fencing and<br>pedestrian crossings on railway infrastructure -<br>construction                                       | 22.08.2022.             | 31.10.2023                        | 4 070                      |
| FIMA Group: Introduction of unified information and video surveillance systems  | 12.05.2022              | 30.12.2023                        | 5 223                      |
| BY BMGS-FIMA-ASTOM: Modernisation of railway infrastructure to increase train speed: construction   | 15.09.2022              | 31.12.2023                        | 57 938                     |

There were no material confirmed transactions for which contracts were not concluded during the reporting year.

## **31. CONTINGENT TAX LIABILITIES**

The tax authorities may audit the accounts at any time within three years of the end of the tax year and additionally assess tax liabilities and penalties. The *Group's Management* is not aware of any circumstances that may give rise to possible material liabilities in the future.

## 32. FUTURE LEASE PAYMENTS

In 2022, the *Group's* costs related to operating lease contracts were EUR 364 thousand, and EUR 304 thousand in 2021.

## 33. TRANSACTIONS WITH RELATED PARTIES

The *Group* has transactions with the Ministry of Transport (100% shareholder of *Latvijas dzelzceļš*) and other commercial companies whose shares are held by the state. The largest transactions are with AS "Pasažieru vilciens" (charge for the minimum access service package, electricity distribution and sales, diesel fuel fees, rent of premises, purchase of subscriber tickets) for EUR 24 136 thousand. (in 2021: EUR 17 942 thousand) and VAS "Latvenergo" (security service charges, electricity purchase costs) for EUR 21 003 thousand. (in 2021: EUR 9 707 thousand). The transactions between them are related to the principal business of the respective parties.

#### 34. GOING CONCERN

External factors related to the geopolitical situation, the war in Ukraine and the international economic sanctions imposed on Russia and Belarus, as well as the consequences of the coronavirus COVID-19 pandemic suggest that the situation with the freight transportation volumes will not improve significantly in the future.

Following Russia's invasion of Ukraine on 24 February 2022, Russia and Belarus have been subject to extensive economic and political sanctions. The sanctions had a significant impact on the *Group's* operations, requiring a review of internal sanctions management processes as well as additional resources to be allocated to sanctions inspections, both on business partners and on the cargo transported.

Given the *Group's* cooperation with its Russian and Belarusian partners, as well as the nature of its operations, the war in Ukraine has undoubtedly had and will continue to have an impact on the *Group's* operations in 2023 and beyond. The restrictions in force to date have not caused any significant immediate damage to the *Group*, but it is difficult to predict the possible impact of additional sanctions on the *Group's* operations in the future. In view of the risks associated with the sanctions, the following measures have been taken:

1) The *Group* has identified all its customers and business partners with current accounts with financial institutions on the sanctions list, contacted these customers and asked them to change their bank accounts, otherwise terminating the cooperation in order to mitigate the risks associated with the current sanctions against financial institutions.

2) In assessing the risks associated with the significantly expanded sectoral sanctions lists, the *Group* has strengthened its freight inspection procedures through a greater focus on the assessment of freight types and their compliance with the sectoral sanctions.

3) All persons on the sanctions lists are reflected in the Sanctions Information System (IS) maintained by the *Group*, which ensures a daily automated check of all clients and business partners against the sanctions lists. The IS Sanctions lists are updated daily by automatically querying the official websites that provide information on sanctions against the Republic of Latvia, the European Union, the United Nations and OFAC.

4) In 2023, work will continue on improving IS Sanctions and strengthening the sanctions area within *the Group* through a number of technical improvements, as well as by creating a separate Sanctions Control Unit within *Latvijas dzelzceļš* responsible for sanctions review and by strengthening the exchange of information on sanctions reviews within the *Group*.

However, despite the difficult situation, *Latvijas dzelzceļš Management* confident that the going concern basis is applicable to the preparation of the financial statements based on the commencement of the implementation of the *Group's* new business model, the execution of the crisis plan and the review of organisational and technological processes, which has resulted and will continue to result in cost savings, and the receipt of the necessary state budget funding for 2022 as part of the Multi-Annual Agreement "On planning and financing of maintenance and development of the public-use railway infrastructure under the management of *VAS "Latvijas dzelzceļš"*, concluded between *VAS "Latvijas dzelzceļš"* and the Ministry of Transport. In addition, work will continue in 2023 on the implementation of the *Group's* new business model and the *Company's* 2025 Medium-term business strategy. A new agreement is being negotiated with the Ministry of Transport regarding the planning and financing of the maintenance and development of the public-use railway infrastructure managed by *VAS "Latvijas dzelzceļš"* because the previous Multi-Annual Agreement expired on 31 December 2022.

The main task of the *Company* is to manage the national public-use railway infrastructure and provide safe, high quality and efficient railway and logistics services in the interests of the Latvian state and economy.

The funding required to achieve the financial stability in 2022 has been recognised in revenue in accordance with the recognition principles set out in IAS 20 Accounting for Government Grants. These principles require the recognition of a government grant at the point in time when there is reasonable assurance that the conditions attached to the receipt of the grant have been fulfilled In addition, grants relating to the recovery of costs should be recognised in the period in which the costs are incurred, provided there is reasonable assurance that the grant will be repaid in the future.

The criteria for Latvijas dzelzce/š to receive the financial stability payment are non-fulfilment of the financial stability conditions set out in the Multi-Annual Agreement. As Latvijas dzelzce/š did not

meet the financial stability conditions set out in the Multi-Annual Agreement in 2022, the criteria for receiving the financial stability payments under the Multi-Annual Agreement were therefore met.

While it is certain that the funds will be received, there is uncertainty as to the timing of receiving the additional funds required by the *Group*. This uncertainty applies to the funds to fully compensate the maintenance and renewal costs of the railway infrastructure for public transport services throughout 2023 as well as the funds for ensuring the financial stability of *Latvijas dzelzceļš*.

The *Group's Management* is aware of the uncertainties associated with further developments and will continue to monitor developments on a daily basis, as well as their potential impact on the *Group's* operations.

## 35. EVENTS AFTER THE END OF THE REPORTING YEAR

In January 2023, in accordance with the Cabinet of Order No. 965 of 21.12.2022, *Latvijas dzelzceļš* paid EUR 11 million to settle the arrears of the deferred compulsory state social insurance contributions. In 2020, the State Revenue Service granted a three-year extension under the State aid mechanism for compensation for the effects of COVID-19.

In addition, it should be noted that according to the Cabinet of Order No 13 "On the termination of the decisive influence on and shareholding in state joint stock company "Latvijas dzelzceļš" in limited liability company "LDZ infrastruktūra" and on the termination of the indirect decisive influence of state joint stock company "Latvijas dzelzceļš" in limited liability company "Rīgas Vagonbūves uzņēmums "Baltija"" and on the termination of the direct decisive influence of limited liability company "Rīgas vagonbūves Uzņēmums "Baltija"" of 12 January 2022, the shareholding of VAS "Latvijas dzelzceļš" in SIA "LDZ infrastruktūra", to be terminated, by liquidating it, at the beginning of 2023.

Except for the above, there have been no events that would have a material impact on the information presented in the financial statements for 2022.

Riga, see the date on the timestamp

Chairman of the Board Member of the Board

The annual report was prepared by the Financial Department of VAS "Latvijas dzelzceļš":

Finance Director

R. Razums

R. Plavnieks

V. Balode-Andrūsa

This document has been signed digitally with a secure electronic signature and contains a time stamp

## VAS "LATVIJAS DZELZCEĻŠ" STATEMENT ON CORPORATE GOVERNANCE IN LATVIJAS DZELZCEĻŠ GROUP IN 2022

The Statement on Corporate Governance of VAS "Latvijas dzelzceļš" (hereinafter "*Latvijas dzelzceļš*" or "*Company*") in "Latvijas dzelzceļš" Group (hereinafter "*Group*") has been prepared in accordance with the provisions of Section 58<sup>.1</sup> of the Law on governance of capital shares of public persons and capital companies" and in compliance Cabinet Regulation No. 175 Regulation on corporate governance recommendations applicable in the capital company of a public person and in the public privately-held capital company of 15 March 2022, which requires that the Recommendations on good corporate governance for companies in Latvia of the Latvian Code of corporate governance Code (hereinafter "*Code*") must be applied in the capital company of a public person. The Code applies on a "comply or explain" basis, i.e., there is an obligation to consider all the principles contained in the Code and to provide information on compliance with them or to provide a reasonable explanation for any deviation from a principle. The rules of application of the Code state that a company complies with the requirements of the Code even if it does not comply with certain principles provided that the deviation from a particular principle is effectively communicated and explained.

The Statement contains information and facts that provide an overview of the application of the Code and its principles in Latvijas dzelzceļš Group in 2022. The application of the criteria contained in the Code has been marked in the Statement as follows:

Not complied with Not applicable

#### SUMMARY

Latvijas dzelzce/š and its subsidiaries follow the "Recommendations on good corporate governance for companies in Latvia" of the Latvian Code of corporate governance, which sets criteria for each of the 17 principles to help assess whether the principle has been complied with. In 2022 the *Group* fully complied with 55 criteria out of 67, did not comply with 7 criteria, whereas 5 criteria in the Code were not applicable, and the criterion was complied with in accordance with external laws.

Latvijas dzelzceļš ensures the improvement of existing corporate governance practices. In accordance with the provisions of the Code of corporate governance<sup>1</sup> of "Latvijas dzelzceļš" Group, following the approval of the corporate governance statement for the reporting period, the Council of *Latvijas dzelzceļš* approves the Corporate governance action plan of the *Group* prepared by the Board for the current year and evaluates the implementation thereof.

#### CORPORATE STRATEGY

Principle 1. The company has established an up-to-date strategy that sets out the company's objectives and focuses on long-term value growth.

| CRITERIA   |            | FACTS  |
|--|------------|--|
| 1.1 The company has established<br>an up-to-date strategy that sets<br>out its objectives and focuses<br>on long-term value growth | $\bigcirc$ | Latvijas dzelzceļš has established a Medium-term<br>operational strategy for 2021-2025, which sets out<br>the objectives of Latvijas dzelzceļš and the Group<br>and a focus on long-term value growth. |

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<sup>&</sup>lt;sup>1</sup> The Code of corporate governance of Latvijas dzelzceļš Group approved under Decision No. PA1.2./13-7 of the Council of VAS "Latvijas dzelzceļš" of 20 October 2021

implementation of the action plans for the

strategic planning

implementation of the

documents.<sup>4</sup>

1.2 The council is engaged in the The Medium-term operational strategy for 2021strategy development process 2025 of Latvijas dzelzceļš was approved under the and approves the strategy at a Council's Decision No. PA 1.2/8-6 on 14.07.2021. council meeting 1.3 The council oversees the The Council of Latvijas dzelzcelš oversees the  $\bigcirc$ implementation of the strategy implementation of the strategy<sup>2</sup>. Every six months, a report on the implementation of the action plan for the implementation of the strategy, reviewed and approved at a Council's meeting, is submitted to the shareholder for consideration<sup>3</sup>. Once a quarter, the councils of the dependent companies review the implementation of the action plans for the implementation of the strategic planning documents. 1.4 The board of the company  $\bigcirc$ The Board of Latvijas dzelzceļš regularly reports to implements the strategy and the Council on the progress in the implementation reports regularly to the council of the strategy. on the progress made in the Once a guarter, the dependent companies submit *implementation of the strategy* to Latvijas Dzelzceļš (the shareholder) a report reviewed by the Board and the Council on the

#### INTERNAL CULTURE AND ETHICAL BEHAVIOUR

<u>Principle 2. The company develops a code of internal culture and ethical conduct that serves as</u> a standard of behaviour for management and employees.

| CRITE | RIA  |   | FACTS  |
|-------|--|---|--|
| 2.1   | The council defines the company's core values  | 0 | The Group's corporate values, as well as the<br>principles of professional conduct and ethics, which<br>ensure that they are directed against corruption,<br>conflicts of interest, the illegal use of insider<br>information, and any other illegal and unethical<br>behaviour, are set out in the Code of Ethics of Latvijas<br>dzelzceļš Group. |
| 2.2   | The board prepares and<br>the council approves a<br>code of internal culture<br>and ethical conduct                            | 0 | The Code of Ethics of Latvijas dzelzceļš Group was approved under Council Resolution No. PA 1.2/13-6 on 20.10.2021 is published on the website.  |
| 2.3   | The board ensures that<br>the code of internal<br>culture and ethical<br>conduct is adhered to in<br>the day-to-day operations | 0 | The Board has approved the by-laws of the Ethics<br>Committee and appointed the Chairperson of the<br>Ethics Committee. The Ethics Committee has been<br>established by order of the Head of the Committee. In<br>2022, visual information materials have been   |

<sup>&</sup>lt;sup>2</sup> The Rules of procedure of the Council of VAS "Latvijas dzelzceļš" were approved under Decision No.PA1.2./13-10 of the Council of VAS "Latvijas dzelzceļš" of 20 October 2021

<sup>&</sup>lt;sup>3</sup> The internal regulation of the Ministry of Transport No. 01-02/31 "Procedure for managing the state capital shares" of 27.09.2021

<sup>&</sup>lt;sup>4</sup> The policy for managing the limited liability companies of "Latvijas dzelzceļš" Group, approved under Decision No. PA1.2./7-14 of the Council of state joint stock company "Latvijas dzelzceļš" of 18 June 2021

of the company and responds when a breach of the Code of ethical conduct is identified developed and in 2023, internal communication activities will take place, explaining the principles contained in the Code of Ethics.

#### INTERNAL CONTROL SYSTEM, RISK MANAGEMENT AND INTERNAL AUDIT

<u>Principle 3. The company has established a system of internal control, the effectiveness of which is monitored by the Council.</u>

| CRITERIA   |   | FACTS  |
|--|---|--|
| 3.1 The company has<br>established a documented<br>internal control system, the<br>establishment of which is<br>the responsibility of the<br>board   | 0 | The Group's internal control system consists of a set of policies and related regulations approved by the Council or the Board of the dominant company <sup>5</sup> . The policies lay down unified management guidelines for a specific area of activity, the general principles of decision-making and the division of responsibilities between the dominant company and its subsidiaries. For the implementation of the policies, policy documents are developed, in addition, the fundamentals of the polices are included in bylaws, work organisation documents, and job descriptions for employees. In accordance with the Group's policies, a system of internal control and risk management is established and continuously improved in the subsidiaries, which is managed by the board of the subsidiary. Latvijas dzelzceļš, as the dominant company, coordinates the implementation of internal control in its subsidiaries. The Council oversees the functioning, adequacy and effectiveness of the internal control and risk management systems of Latvijas dzelzceļš <sup>6</sup> . |
| 3.2 At least once a year,<br>Internal audit carries out an<br>assessment of the<br>effectiveness of the internal<br>control system against<br>predefined criteria and<br>reports the results of the<br>assessment to the council | 0 | Internal audit assesses the effectiveness of the internal<br>control environment and risk management systems,<br>including the risks of fraud, error or unproductive or<br>uneconomic activities, and the adequacy of internal<br>controls to achieve the objectives. As a result,<br>recommendations are prepared to improve the<br>management processes and internal control systems of<br>the Company and Group companies, and there is an<br>oversight over the implementation of the<br>recommendations. The internal audit reports are<br>submitted to the Board, the Council and the<br>representative of the holder of the state capital shares.<br>In 2022, Internal audit conducted a sanctions risk audit,<br>a fraud, corruption and conflict of interest audit and an<br>internal control system assessment audit.  |
| 3.3 The council evaluates the<br>submitted assessment of   | 0 | The Head of Internal audit regularly reports to the Audit<br>Committee of the Council of Latvijas dzelzceļš on the   |

<sup>&</sup>lt;sup>5</sup> The policy for managing the limited liability companies of "Latvijas dzelzceļš" Group, approved under Decision No. PA1.2./7-14 of the Council of state joint stock company "Latvijas dzelzceļš" of 18 June 2021.

<sup>&</sup>lt;sup>6</sup> The Rules of procedure of the Council of VAS "Latvijas dzelzceļš" were approved under Decision No. PA1.2./13-10 of the Council of VAS "Latvijas dzelzceļš" of 20 October 2021

the effectiveness of the internal control system at least once a year least once a year neeting of shareholders of Latvijas Dzelzceļš on the activities of the Internal audit function in the previous year and the implementation of the Internal audit plan, including an overall opinion on the effectiveness of the Group's internal control and risk management system.<sup>7</sup>

Principle 4. The company identifies, assesses and monitors the risks related to its activities.

| CRI | TERIA   |   | FACTS  |
|-----|---|---|--|
| 4.1 | The board develops and the<br>council approves the<br>company's risk<br>management policy   | 0 | The Council of Latvijas dzelzceļš has approved the Group's risk management policy approved by the Board of the Group's dominant company <sup>8</sup> .   |
| 4.2 | Based on the assessment of<br>the identified risks, the<br>board takes risk<br>management measures  | 0 | Risk management measures are taken by the boards<br>and risk owners of the Group companies, depending on<br>the risk assessment and measure. The Group's Risk<br>Management Committee, consisting of the Board of<br>Latvijas dzelzceļš, the Head of Internal Audit Function<br>and the Risk Director, reviews and discusses the<br>material risks of the Group companies and their<br>mitigation and control measures, and makes<br>recommendations to improve the management of the<br>material risks. |
| 4.3 | At least once a year, the<br>council reviews the board's<br>reports on the risk<br>management activities and<br>the implementation of the<br>risk management policy | 0 | Once a year, the Council of Latvijas dzelzceļš reviews<br>the annual report submitted by the Board on the risk<br>management process and the implementation of the<br>risk management plan in the Company and the Group<br>as a whole. The Council of Latvijas dzelzceļš reviews<br>the Board's quarterly report on the Group companies'<br>material risks, their control mechanisms and the<br>implementation of the risk management plan.  |

<u>Principle 5. There is an internal audit function in the company that independently and objectively</u> <u>evaluates the company's performance</u>

| CRITERIA |   |   | FACTS   |
|----------|---|---|---|
| func     | company has an<br>nal auditor who is<br>tionally independent of<br>poard and reports to the<br>ncil | 0 | Internal audit in the Group is carried out by the Internal<br>Audit Function of Latvijas dzelzceļš, which reports<br>directly to the Council of Latvijas dzelzceļš. However,<br>the Board is empowered to approve the bylaws of the<br>Internal Audit Function and the medium-term and<br>annual audit plan, as well as to deal with issues related |

<sup>&</sup>lt;sup>7</sup> The Internal audit policy of Latvijas dzelzceļš Group, approved under Decision No PA1.2/19-9 of the Council of VAS "Latvijas dzelzceļš" of 20 October 2022

<sup>&</sup>lt;sup>8</sup> The Risk management policy of Latvijas dzelzceļš Group approved under Decision No. PA 1.2./22-6 of the Council of VAS "Latvijas dzelzcelš" of 15 October 2020

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to employment relationships, so the criterion has not actually been met.

The Head of Internal Audit Function reports regularly to the Audit Committee and the Council on the progress in the implementation of the internal audit plan and submits, once a year, to the Board, the Council and the general meeting of shareholders of Latvijas dzelzceļš a report on the activities of the internal audit function in the previous year and the implementation of the internal audit plan, including a general opinion on the effectiveness of the Group's internal control and risk management system.

The Internal Audit Function of Latvijas dzelzceļš may conduct audits and inspections in the dependent limited liability companies.

- 5.2 The internal auditor is The appointment of the Head of Internal Audit Function approved for the position by is approved by the decision of the Council.
- 5.3 The internal auditor develop a risk-based internal audit plan, which is approved by the council The Head of Internal Audit Function develops a medium-term strategic internal audit plan and an annual internal audit plan based on the risk assessment<sup>9</sup>.

The medium-term strategic internal audit plan and the annual audit plan is approved by the Board subject to the prior approval of the general meeting of shareholders of VAS "Latvijas dzelzceļš"<sup>10</sup> and the Council. The Council has the power to commission the performance of other ad hoc audits or inspections as necessary<sup>11</sup>.

5.4 The internal auditor informs Once a year, the Internal Audit Function submits to the the board and the council on Board and the Council and to the holder of the capital the implementation of the shares for their consideration information on the results of the implementation of the plan for the previous internal audit plan, the results of the audit and the calendar year as well as on the status of recommended actions to *implementation of internal audit recommendations*<sup>12</sup> remedy deficiencies, if any Once a year, the Board submits a report to the general have been identified

Once a year, the Board submits a report to the general meeting of shareholders on the implementation of the internal audit plan for the previous year<sup>13</sup>.

<sup>&</sup>lt;sup>9</sup> The Internal audit policy of Latvijas dzelzceļš Group, approved under Decision No. PA 1.2./22-6 of the Council of VAS "Latvijas dzelzceļš" No. PA1.2/19-9 dated 20 October 2022

<sup>&</sup>lt;sup>10</sup> The Articles of Association of VAS "Latvijas dzelzceļš" have been approved by Resolution No A1.1/7-3 of the extraordinary general meeting of shareholders of VAS "Latvijas dzelzceļš" on 24 November 2022.

<sup>&</sup>lt;sup>11</sup> The Rules of procedure of the Council of VAS "Latvijas dzelzceļš" were approved under Decision No PA1.2./13-10 of the Council of VAS "Latvijas dzelzceļš" of 20 October 2021

<sup>&</sup>lt;sup>12</sup> The by-laws of the internal audit function of VAS "Latvijas dzelzceļš" approved by the Decision No VL-42/166 of the Board of VAS "Latvijas dzelzceļš" of 24 October 2019

<sup>&</sup>lt;sup>13</sup> The internal regulation of the Ministry of Transport No. 01-02/31 "Procedure for managing the state capital shares" of 27.09.2021

#### EXTERNAL AUDITOR

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Principle 6. The Company has an independent external auditor.

| CRITERIA  | FACTS  |
|---|--|
| 6.1 The board and the audit<br>committee, if established,<br>determine the criteria for the<br>selection of the external<br>auditor | The Council and the Audit Committee of Latvijas<br>dzelzceļš, as well as the councils of the Group's<br>dependent companies have no responsibilities in<br>determining the selection criteria for the external<br>auditor.   |
|   | The general meeting of shareholders of VAS "Latvijas dzelzceļš" decides on the election of the auditor and the remuneration to be paid to the auditor. <sup>14</sup>   |
|   | After the decision on the results of the procurement<br>has been taken in respect of the dependent limited<br>liability companies, the decision on the election of the<br>auditor is taken by the general meeting of<br>shareholders <sup>15</sup> . In the case of AS "LatRailNet", the<br>auditor is elected in accordance with Section 268<br>(Paragraph 1, Clauses 3 and 9) of the Commercial<br>Law,<br>and Paragraph 9, Subparagraphs 3 and 8 of the<br>Articles of Association of AS "LatRailNet", the general<br>meeting of shareholders' meeting decides on the<br>election of the auditor and the remuneration to be paid<br>to the auditor. |
| 6.2 The company's<br>independent external<br>auditor has appropriate<br>qualifications  | The audit of the 2022 annual report of the companies<br>of Latvijas dzelzceļš Group and the consolidated<br>annual report of VAS "Latvijas dzelzceļš" are audited<br>by the company of certified auditors SIA<br>"PricewaterhouseCoopers", licence No. 5   |
| 6.3 The term of office of an<br>external auditor shall not<br>exceed 5 years  | One external auditor has been in office for more than<br>5 years. The meeting of the criterion will be met after<br>the contract with SIA "PricewaterhouseCoopers" is<br>fulfilled, i.e., with the next procurement for 2024.  |

ELECTION OF THE MEMBERS OF THE COUNCIL

Principle 7. The Company ensures transparent procedures for the election and removal of Council members.

| CRITERIA |         |   |   | FACTS   |
|----------|---------|---|---|---|
| 7.1      | the sel | company<br>shed a procedu<br>ection and remu<br>I members | 0 | Latvijas dzelzceļš does not have an established<br>procedure for the removal and selection of Council<br>members, because the procedure for the selection<br>and removal of Council members for Latvijas dzelzceļš<br>as a public capital company and its dependent<br>companies <sup>16</sup> is set out in external laws and the laws |

 <sup>&</sup>lt;sup>14</sup> Law on governance of capital shares of public persons and capital companies
<sup>15</sup> The policy for managing the limited liability companies of "Latvijas dzelzceļš" Group, approved under Decision No. PA1.2./7-14 of the Council of VAS "Latvijas dzelzceļš" of 18 June 2021.

<sup>&</sup>lt;sup>16</sup> Law on governance of capital shares of public persons and capital companies

issued on the basis thereof<sup>17</sup> and has been complied with.

| 7.2 | The company provides<br>timely and sufficient<br>information to its<br>shareholders about the<br>members of the council who<br>are standing for election or<br>re-election. | $\bigcirc$ | Latvijas dzelzceļš and the Group companies provide<br>timely and sufficient information to the shareholder<br>about the members of the Council nominated for<br>election or re-election.                                    |
|-----|---|------------|---|
| 7.3 | The size of the council is appropriate to the specific nature of the company  | 0          | In 2022, the size of the Council of the Group<br>companies was appropriate to the nature of their<br>activities. Up-to-date information on the members of<br>the Council is available on the Latvijas dzelzceļš<br>website. |
| 7.4 | A member of the council is<br>elected for a term of office of<br>not more than 5 years  | 0          | The members of the Council are elected for a term of office of not more than 5 years  |

Principle 8. The members of the council collectively have appropriate experience and expertise.

| CRITI | ERIA  | FACTS   |
|-------|---|---|
|       | The council collectively has (<br>the skills, experience and<br>knowledge, including in the<br>relevant sector, to be able to<br>fully perform its duties | The Council is nominated in accordance with the<br>procedure laid down in external laws, thus the<br>members of the Council are assessed on the basis of<br>their professional suitability. Information on the<br>education and experience of the Council members of<br>Latvijas dzelzceļš and dependent companies is<br>available on the Latvijas dzelzceļš website. |
|       | The composition of the (<br>board is based on the<br>principles of diversity  | The Council is nominated in accordance with the procedures laid down in external laws. The Group has not established the principles of diversity.   |
|       | Both genders are be (<br>represented on the council   | In 2022, out of the four councils of the Group<br>companies, one, that of SIA "LDz ritošā sastāva<br>serviss" had both genders represented on it.   |
| -     | The board develops an (<br>induction training<br>programme and provide<br>induction training for the<br>new members                                       | In 2022, there was no dedicated induction training<br>programme available for Board members. In 2023,<br>Latvijas dzelzceļš will develop an induction training<br>programme for the new Council members, including in<br>Group companies.   |
|       |   | omposed of independent members  |
| CRITI |   | FACTS   |
|       | The company assess and (<br>the shareholders determine  | ) The proportion of independent members of the Council is determined by external laws <sup>18</sup>   |

<sup>17</sup> Cabinet Regulation No. 20 "Nomination procedure for members of the board and council in capital companies in which the state or a public derivative holds shares" of 25.01.2020

<sup>18</sup> Law on Governance of Capital Shares of Public Persons and Capital Companies

|     | the proportion of<br>independent members of<br>the council   |            |  |
|-----|--|------------|--|
| 9.2 | At least half of the members<br>of the council are<br>independent  | 0          | In 2022, at least half of the boards of all Group companies were independent.  |
| 9.3 | Independent candidates for<br>election to the council make<br>a declaration of<br>independence                                 | $\bigcirc$ | Independent candidates for election to the Council<br>have submitted a declaration of their independence as<br>part of the nomination process. |
| 9.4 | Prior to council election, the<br>company assesses the<br>independence of council<br>members based on<br>available information | 0          | The independence of the members of the Council is assessed by the Nomination Commission, according to the information available.               |

PRINCIPLES FOR DETERMINING THE REMUNERATION OF THE COUNCIL AND THE BOARD

Principle 10. The company has established a remuneration policy

| CRITERIA   |               | FACTS  |
|--|---------------|--|
| 10.1. The company ha<br>established a remuneratio<br>policy, developed by th<br>board, reviewed by th<br>council and approved by th<br>general meeting o<br>shareholders | n<br>ne<br>ne | In accordance with the Articles of Association of<br>Latvijas dzelzceļš, the Board gets the approval of the<br>general meeting of shareholders on the key conditions<br>for determining the remuneration of the Company's<br>employees, on which the remuneration system of<br>Latvijas dzelzceļš employees is based. <sup>19</sup><br>The personnel and remuneration management policy<br>of Latvijas dzelzceļš Group (new version) has been<br>approved by the Council of Latvijas dzelzceļš. <sup>20</sup><br>The principles for determining the remuneration of the<br>members of the Board and Council are laid down in<br>external laws and internal regulations of the Ministry<br>of Transport <sup>21</sup> .<br>Latvijas dzelzceļš as the dominant company<br>establishes unified procedures (guidelines) <sup>22</sup> for<br>determining the remuneration of the members of the<br>councils and boards of dependent companies. |
| 10.2 The council sets financi<br>and non-financial objective<br>for the board each yea<br>their impact on variab   | es<br>r,      | Once a year, the Council of Latvijas dzelzceļš sets the<br>financial and non-financial objectives to be achieved<br>by the Board, the individual targets (KPIs) of the   |

<sup>&</sup>lt;sup>19</sup> Regulation on the key conditions for determining the remuneration of employees, approved under Decision No VL-1.6/334-2022 of the Council of 17 October 2022, accepted under Decision No PA1.2/19-8 No PA1.2/19-8 of the Council of 20 October 2022, agreed under the resolution No A1.1/7-1 of the general meeting of shareholders of 24 November 2022.

<sup>&</sup>lt;sup>20</sup> The Rules of procedure of the Council of VAS "Latvijas dzelzceļš" were approved under Decision No. PA1.2./13-10 of the Council of VAS "Latvijas dzelzceļš" of 20 October 2021

<sup>&</sup>lt;sup>21</sup> The internal regulation of the Ministry of Transport No. 01-02/31 "Procedure for managing the state capital shares" of 27.09.2021

<sup>&</sup>lt;sup>22</sup> Guidelines for the remuneration and motivation of the members of the Council and the Board of the dependent companies of Latvijas dzelzceļš Group approved under Decision No. VL-1.6/219-2022 of the Board of 13 July 2022

remuneration and monitors members of the Board for the next period and their achievement oversees the implementation thereof<sup>23</sup>. The board of the dependent company requires the prior approval of the council (if there is a council) or, if there is no council, the dominant company as the sole shareholder for the approval of the forecast annual financial performance and non-financial targets, performance targets set individually for the members of the Board<sup>24</sup>. 10.3 The members of the council The members of the Council of Latvijas dzelzceļš and are not paid a variable members of the councils of the Group's subsidiaries do not receive variable remuneration, nor are they remuneration or anv paid any compensation in the event of removal from compensation in the event office or resignation. of removal or resignation 10.4 Once a year, the board The Board's report on the remuneration granted in reports on the remuneration 2022 to each current and former member of the Board and Council will be included in the Sustainability granted to each current and former member of the board Report of Latvijas dzelzceļš. and council

ORGANISING THE COUNCIL'S WORK AND DECISION-MAKING

Principle 11. The company has established a defined and understandable framework of the work of the board.

| CRITERIA |   |   | FACTS  |
|----------|---|---|--|
| 11.1     | The council organises its work in accordance with its bylaws and work schedule  | 0 | The Council of Latvijas dzelzceļš has established the<br>Rules of procedure which have been approved <sup>25</sup> . The<br>Council approves the schedule of ordinary meetings<br>of the Council for the current calendar year.  |
|          |   |   | The councils of the Group's subsidiaries draw up and<br>approve the rules of procedure of the council and<br>submit them to the Sole shareholder for information <sup>26</sup> .<br>The annual work plan for the councils of dependent<br>companies is not specified in the rules of procedure   |
| 11.2     | The council holds at least<br>one separate meeting per<br>year to discuss the<br>company's strategy and its<br>implementation | 0 | The Council of Latvijas dzelzceļš oversees the implementation of the strategy <sup>27</sup> . A report on the implementation of the action plan for the implementation of the strategy is submitted to the shareholder every six months for consideration and approval by the Council <sup>28</sup> . The Council of Latvijas dzelzceļš has not held a separate meeting in 2022 to |

<sup>&</sup>lt;sup>23</sup> The Rules of procedure of the Council of VAS "Latvijas dzelzceļš" were approved under Decision No. PA1.2./13-10 of the Council of VAS "Latvijas dzelzceļš" of 20 October 2021

<sup>&</sup>lt;sup>24</sup> The policy for managing the limited liability companies of "Latvijas dzelzceļš" Group, approved under Decision No. PA1.2./7-14 of the Council of state joint stock company "Latvijas dzelzceļš" of 18 June 2021.

<sup>&</sup>lt;sup>25</sup> The Rules of procedure of the Council of VAS "Latvijas dzelzceļš" were approved under Decision No. PA1.2./13-10 of the Council of VAS "Latvijas dzelzceļš" of 20 October 2021

<sup>&</sup>lt;sup>26</sup> The policy for managing the limited liability companies of "Latvijas dzelzceļš" Group, approved under Decision No. PA1.2./7-14 of the Council of state joint stock company "Latvijas dzelzceļš" of 18 June 2021

<sup>&</sup>lt;sup>27</sup> The Rules of procedure of the Council of VAS "Latvijas dzelzceļš" were approved under Decision No. PA1.2./13-10 of the Council of VAS "Latvijas dzelzceļš" of 20 October 2021

<sup>&</sup>lt;sup>28</sup> The internal regulation of the Ministry of Transport No. 01-02/31 "Procedure for managing the state capital shares" of 27.09.2021

discuss the company's strategy and its implementation.

Quarterly reviews of the implementation of the action plans for the strategic planning documents are performed by the councils of the dependent companies<sup>29</sup>.

- 11.3 The company's budget includes the funding needed for the activities of the council
  - The board conducts an<br/>annual self-evaluation of its<br/>work, the results of which<br/>shall be examined at a<br/>meeting of the councilThe Council of Latvijas dzelzceļš carries out an annual<br/>self-assessment of the Council. Information on the<br/>Board's self-assessment and the main conclusions of<br/>the Board's self-assessment are presented to the<br/>general meeting of shareholders for consideration.30

Dependent companies submit to the Shareholder, at the same time as the annual report, a report on the evaluation of the performance of the members of the Council (including a self-assessment), reviewed by the Council<sup>31</sup>.

11.5 The council has evaluated the need for committees (if a committee has been established, see principle #12.1)
The Council of Latvijas dzelzceļš has assessed the need for committees and established an Audit Committee<sup>32</sup>.
For dependent companies, the law does not require the establishment of council committees, nor do the rules of procedure of the Council.

Principle 12. The decisions council takes are informed and well-considered.

| CRITERIA  |                         | FACTS   |
|---|-------------------------|---|
| 12.1 The council ha<br>sufficient a<br>information pre<br>board for decis | access to epared by the | Information for decision-making is submitted to the Council of Latvijas dzelzceļš one week before the meeting date or within a shorter period as decided by the Chairman of the Council <sup>33</sup> . |
|   |                         | The Rules of procedure of the councils of the<br>dependent companies set forth deadlines for the<br>submission of information necessary for decision-<br>making.  |
| 12.2 The council de<br>procedures<br>circulation of                       | for the                 | The Rules of procedure of the Council of Latvijas<br>dzelzceļš set forth the procedure for the circulation of<br>information and the right of the Council to request                                    |

<sup>&</sup>lt;sup>29</sup> The policy for managing the limited liability companies of "Latvijas dzelzceļš" Group, approved under Decision No. PA1.2./7-14 of the Council of state joint stock company "Latvijas dzelzceļš" of 18 June 2021

11.4

<sup>&</sup>lt;sup>30</sup> The internal regulation of the Ministry of Transport No. 01-02/31 "Procedure for managing the state capital shares" of 27.09.2021

<sup>&</sup>lt;sup>31</sup> The policy for managing the limited liability companies of "Latvijas dzelzceļš" Group, approved under Decision No. PA1.2./7-14 of the Council of state joint stock company "Latvijas dzelzceļš" of 18 June 2021.

<sup>&</sup>lt;sup>32</sup> Council Decision No. PA 1.2./4-2 of 6 March 2020

<sup>&</sup>lt;sup>33</sup> The Rules of procedure of the Council of VAS "Latvijas dzelzceļš" were approved under Decision No. PA1.2./13-10 of the Council of VAS "Latvijas dzelzceļš" of 20 October 2021

including the right of the council to request information from the board necessary for the council to make decisions information from the Board that is necessary for the Council to make decisions.

The Rules of procedure of the councils of the dependent companies set forth the procedure for the circulation of information and the right of the council to request information from the board that is necessary for the Council to make decisions.

12.3 A member of the council The Rules of procedure of the Council of Latvijas  $\bigcap$ dzelzceļš require that in making decisions, a member analyses information and prepares proposals for of the Council must act in the best interests of the decisions by the council company, in good faith, with due diligence and care. The minutes of the meeting of the Council indicate, inter alia, the conduct and content of the discussion of the items on the agenda; the dissenting opinion of a member of the Council at his or her request; and the matters, if any, proposed for consideration.

> The meetings of the councils of the dependent companies follow the procedure of the council as laid down in the council's Rules of procedure and, upon request of a member of the council, the minutes shall indicate the differing opinions of the members of the council.

12.4 The board considers risks. When making decisions, the Council of Latvijas  $\bigcirc$ dzelzcelš contributes to the achievement of the shortand long-term impacts on corporate value. objectives included in the Medium-term operational strategy, assesses risks, short-term and long-term sustainability and impact on the value, sustainability and responsible responsible development when making decisions development of the capital company.

Principle 12.<sup>1</sup> The committee prepares proposals for decision by the council.

| CRI    | TERIA  | FACTS   |
|--------|--|---|
| 12.11  | The council determines the<br>tasks of the committee and<br>the organisation of its<br>activities  | The Council of Latvijas dzelzceļš has approved the<br>bylaws of the Audit Committee, which define the tasks<br>of the committee and the organisation of its<br>activities. <sup>34</sup> The bylaws of the Audit Committee are<br>available on the website. |
| 12.1.2 | The council establishes a<br>committee of at least 3<br>council members with<br>appropriate experience and<br>expertise in the defined area<br>of the committee<br>(remuneration, nomination,<br>audit or other) | The Board has set up an Audit Committee composed<br>of 3 members: the Audit Committee is chaired by<br>Reinis Ceplis, with Andris Liepiņš and Andris Maldups<br>as members <sup>35</sup> .  |

<sup>&</sup>lt;sup>34</sup> Regulation of the Audit Committee of the Council of the VAS "Latvijas dzelzceļš" approved by the Council Decision No. PA 1.2./22-10 of 15 October 2020

<sup>&</sup>lt;sup>35</sup> Council Decision No. PA 1.2./4-2 of 6 March 2020

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12.<sup>1</sup>.3 The committee analyses information and prepares proposals for decisions by the board, and informs the board of the committee's work

The Audit Committee supports the Council in overseeing the Company's annual reporting process, internal control and risk management systems, and operates in compliance with legal requirements and the principles of good corporate governance. The Audit Committee report in writing to the Council on its activities and the fulfilment of its tasks at least once a vear. The Audit Committee is responsible for reporting to the Council any deficiencies identified in: the preparation and/or review of the financial statements consolidated and financial statements: the effectiveness of internal control and risk management and internal audit; and promptly becoming aware of any non-compliance by the sworn auditor with the Audit Services Law.

*In 2022, the Audit Committee held 11 meetings and considered 59 matters.* 

#### AVOIDING CONFLICTS OF INTEREST

<u>Principle 13. The members of the board and council are clearly aware of the appearance of a conflict of interest and are informed of the necessary action to be taken in the event of a conflict of interest.</u>

| CRITERIA  | FACTS  |
|---|--|
| 13.1 The council defines the<br>indications of a conflict of<br>interest and establishes<br>procedures for the<br>prevention and<br>management of conflicts of<br>interest              | The members of the boards and councils of the Group<br>companies are public officials, therefore conflict of<br>interest situations and issues of combining positions<br>are dealt with in accordance with external laws and<br>regulations on prevention of conflict of interest<br>situations in the activities of public officials <sup>36</sup> . The<br>Rules of procedure of the boards and councils of the<br>Group companies set out the obligations to comply<br>with external regulations and to act in the event of a<br>conflict of interest or potential conflict of interest <sup>37</sup> . The<br>external framework applies when giving consent to the<br>merger. |
|   | The designated representative of the state<br>shareholder supervises the handling of conflicts of<br>interest and interconnection issues of state officials of<br>Latvijas dzelzceļš, which are within the competence of<br>the Board and Council of the capital company <sup>38</sup> .   |
| 13.2 The members of the council<br>or the board do not take part<br>in decisions on matters<br>where the interests of the<br>company conflict with the<br>interests of the council, the | The Rules of procedure of the boards and councils of<br>the Group companies set forth the obligations to<br>comply with external regulations and to act in the<br>event of a conflict of interest or potential conflict of<br>interest.  |

<sup>&</sup>lt;sup>36</sup> Law on prevention of conflicts of Interest in the activities of public officials

<sup>&</sup>lt;sup>37</sup> The policy for managing the limited liability companies of "Latvijas dzelzceļš" Group, approved under Decision No. PA1.2./7-14 of the Council of VAS "Latvijas dzelzceļš" of 18 June 2021

<sup>&</sup>lt;sup>38</sup> Ministry of Transport internal rules 27.09.2021. No 01-02/31 "Procedures for the administration of public shareholdings"

board or persons related to them

13.3 Persons subject to conflict of interest obligations get

regular training on how to deal with conflict of interest situations

In 2022, the Group's officials and employees received training on "Assessing corruption risks and developing an anti-corruption action plan" and "Preventing corruption risks and conflicts of interest in the work of the public procurement commission"

#### GENERAL MEETING OF SHAREHOLDERS

<u>Principle 14. The company provides shareholders with timely information about the general</u> meeting of shareholders, providing all information necessary for decision-making.

 $\bigcirc$ 

| CRITERIA   |   | FACTS   |
|--|---|---|
| 14.1 The company informs<br>shareholders in good time of<br>the agenda, proceedings<br>and voting procedure of the<br>general meeting of<br>shareholders, as well as of<br>any changes thereto   | 0 | General meetings of shareholders are organised in<br>accordance with the internal regulation of the Ministry<br>of Transport No. 01-02/31 "Procedure for managing<br>the state capital shares" of 27.09.2021" <sup>39</sup> , Latvijas<br>dzelzceļš complies with the requirements of the rules.<br>The dependent companies of Latvijas dzelzceļš<br>submit information on the agenda of the general<br>meeting of shareholders within the established<br>deadlines.<br>The Rules of procedure for the general meetings of<br>shareholders of dependent companies determine how<br>meetings of members of the Group's limited liability<br>entities are organised <sup>40</sup> .<br>As "LatRailNet" is subject to the provisions of the<br>Commercial Law governing the general meetings of<br>shareholders. |
| 14.2 At the same time as the<br>meeting is announced, the<br>company shall provide<br>shareholders with the<br>opportunity to review the<br>draft resolutions that are<br>initially scheduled to be<br>voted on at the meeting.<br>The company shall promptly<br>inform shareholders of any<br>additional draft resolutions<br>submitted | 0 | The notice on convening the general meeting of<br>shareholders is sent at least two weeks before the<br>meeting (except extraordinary meetings). At the same<br>time as the notice convening the general meeting of<br>shareholders, the capital company submits all<br>documents supporting and related to the matter to be<br>considered at the general meetings of shareholders,<br>providing the shareholder's representatives with an<br>opportunity to examine the submitted documents.   |
| 14.3 The company provides<br>shareholders with the<br>opportunity to submit<br>questions on items on the<br>agenda and draft<br>resolutions prior to the   | 0 | After identifying the views and assessing the issue, the<br>Department for managing state capital shares of the<br>Ministry of Transport approves the draft decision,<br>proposes clarifications or inform the capital company<br>that there is no reason to submit the issue for<br>consideration at the general meeting of shareholders.  |

<sup>&</sup>lt;sup>39</sup> The internal regulation of the Ministry of Transport No. 01-02/31 "Procedure for managing the state capital shares" of 27.09.2021

<sup>&</sup>lt;sup>40</sup> The Rules of procedure of the general meeting of shareholders of dependent companies were approved by Board Decision No. VL -25/154 of 14 April 2020.

|      | general meeting of<br>shareholders   | Two working days before the general meeting of<br>shareholders, the Department for managing state<br>share capital prepares draft resolutions for the general   |  |
|------|--|---|--|
|      | meeting of shareholders and submit them to<br>representative of the state shareholder and<br>Secretary of state for approval. The representativ<br>the state shareholder may set other deadlines for<br>preparation and approval of the resolutions of<br>general meeting of shareholders. |   |  |
| 14.4 | Draft decisions and<br>enclosed documents<br>provide detailed, clear and<br>complete information on the<br>matter under consideration  | Latvijas dzelzceļš ensures that draft decisions and<br>documents enclosed thereto provide detailed, clear<br>and complete information on the matter under<br>consideration. The Rules of procedure of the Board<br>include provisions for the preparation and submission<br>of documents to the Council, the general meeting of<br>shareholder and the shareholder. |  |

Principle 15. The company promotes effective shareholder engagement in decision-making and the widest possible participation of shareholders in the general meetings of shareholders.

| CRI  | TERIA   |            | FACTS   |
|------|---|------------|---|
| 15.1 | General meetings of<br>shareholders are convened<br>and held at a place and time<br>convenient for the<br>shareholders            | 0          | 100% of the shares in Latvijas dzelzceļš are owned by<br>the state and held by the Ministry of Transport of the<br>Republic of Latvia, the general meeting of<br>shareholders is convened in accordance with the law <sup>41</sup><br>in accordance with the procedure laid down and in<br>compliance with the binding internal rules. General<br>meetings of shareholders are held at the premises of<br>Latvijas dzelzceļš or the Ministry of Transport, or<br>remotely by electronic means <sup>42</sup> .             |
|      |   |            | At the general meeting of shareholders of Latvijas<br>dzelzceļš' dependent companies, shareholders are<br>represented, and decisions are made by the Board of<br>Latvijas dzelzceļš. The shareholder elects the<br>Chairman of the Board of Latvijas dzelzceļš or, in his<br>absence another member of the Board of Latvijas<br>dzelzceļš as the chair of the general meeting of<br>shareholders. General meetings of shareholders are<br>usually convened at the registered office of Latvijas<br>dzelzceļš or remotely. |
| 15.2 | The company provides<br>shareholders with the<br>possibility to participate<br>remotely in the general<br>meeting of shareholders | $\bigcirc$ | General meetings of shareholders may be held<br>remotely by electronic means.<br>General meetings of shareholders of dependent<br>companies of Latvijas dzelzceļš may also be held<br>remotely.   |
| 15.3 | The company determines<br>the appropriate duration of<br>the shareholders' meeting<br>and gives shareholders the                  | 0          | The duration of the meeting is determined by the items<br>on the agenda and the progress of the discussion. The<br>requirements for the preparation of documents for the<br>general meetings of shareholders and general  |

 <sup>&</sup>lt;sup>41</sup> Law on Governance of Capital Shares of Public Persons and Capital Companies
<sup>42</sup> The internal regulation of the Ministry of Transport No. 01-02/31 "Procedure for managing the state capital shares" of 27.09.2021

|      | opportunity to express their<br>views during the meeting<br>and to obtain the<br>information necessary to<br>make decisions.   |   | meetings of shareholders are laid down in the internal<br>rules of the Ministry of Transport and the internal rules<br>of Latvijas dzelzceļš Group, respectively <sup>43</sup> .<br>The general meetings of shareholders of Latvijas<br>dzelzceļš are chaired by a representative of the<br>shareholder, so there is no doubt about the<br>shareholder's ability to express his/her opinion and<br>obtain the necessary information for decision-making. |
|------|--|---|--|
|      |  |   | The general meetings of the shareholders of the<br>dependent companies of Latvijas dzelzceļš are<br>chaired by the Chairman of the Board of Latvijas<br>dzelzceļš, so there is no doubt that the general<br>meetings of shareholder will be able to express his/her<br>opinion and obtain the necessary information for<br>decision-making.  |
| 15.4 | The company convenes a<br>new general meeting of<br>shareholders if the items on<br>the agenda cannot be dealt<br>with in the time allowed   | 0 | If the items on the agenda of a meeting cannot be dealt<br>with in the time allowed, they are placed on the<br>agenda of the next meeting.   |
|      |  |   | If the documents are not submitted to the general<br>meeting of shareholders on time or are not<br>appropriate, the matter is not dealt with. Meetings are<br>convened and the agenda is set by the Board.   |
|      |  |   | The dependent companies of Latvijas dzelzceļš<br>announce a new general meeting of shareholder if the<br>items on the agenda of the meeting cannot be dealt<br>with in the time allowed.   |
| 15.5 | The company shall invite<br>the members of the board<br>and council, the candidates<br>for the council, the auditor<br>and the internal auditor, as<br>well as other persons to<br>participate in the general<br>meeting of shareholders in<br>accordance with the matters<br>to be considered at the<br>meeting | 0 | The members of the Council and the Board attend the<br>general meeting of shareholders. The auditor is<br>obliged to attend the general meeting of shareholders<br>when the matters reviewed in the meeting concern the<br>annual report. Other persons are invited as directed by<br>the shareholder representative and in accordance with<br>the matters to be reviewed at the meeting.  |
| 15.6 | The general meeting of<br>shareholders passes<br>resolutions in accordance<br>with the draft resolutions<br>previously announced   | 0 | The general meeting of shareholders usually passes<br>resolutions in accordance with the draft resolutions<br>previously announced and may also adopts editorial<br>changes or other resolutions.  |

Principle 16. A company has established a dividend policy and discusses it with shareholders.

| <br>CRI | TERIA          |                         |               |   | FACTS   |
|---------|----------------|-------------------------|---------------|---|---|
| 16.1    | The<br>establi | company<br>shed and pub | has<br>lished | 0 | Latvijas dzelzceļš has not established and published<br>a dividend policy, as Latvijas dzelzceļš follows the<br>procedure for determining the share of profit to be |

 $<sup>^{\</sup>rm 43}$  The Rules of Procedure of the Meeting of Members of Dependent Companies were approved by Board Decision No VL -25/154 of 14 April 2020.

|      | up-to-date information on its<br>dividend policy   | forecast and paid out in dividends, which is set out in<br>the Law on governance of capital shares of public persons<br>and capital companies and the Cabinet Regulations<br>issued in accordance therewith <sup>44</sup> . |
|------|--|---|
|      |  | The share of profit to be paid out in dividends by<br>Latvijas dzelzceļš and its subsidiaries is usually<br>planned over a five-year period and is determined in<br>the Medium-term operational strategy.                   |
| 16.2 | The dividend policy is<br>discussed with<br>shareholders at the general<br>meeting of shareholders | This criterion does not apply to Latvijas dzelzceļš. See<br>para. 1.6.  |

#### TRANSPARENCY OF COMPANY OPERATIONS

Principle 17. The company informs shareholders and other stakeholders about the company's business, financial performance, governance and other relevant matters regularly and in a timely <u>manner</u>

| CRITERIA |   |   | FACTS   |
|----------|---|---|---|
| 17.1     | The company shall disclose<br>complete, accurate, objective,<br>up-to-date and truthful<br>information in a timely manner   | 0 | Complete, accurate, objective, up-to-date and<br>truthful information about the Group companies is<br>disclosed on the Latvijas dzelzceļš website in<br>accordance with the requirements of external<br>laws <sup>45</sup> .  |
| 17.2     | The company providesinformationtoshareholdersattime and to the same extent  | 0 | This criterion is not applicable as Latvijas dzelzceļš<br>has a single shareholder.   |
| 17.3     | The company discloses<br>information about its<br>management, strategy or<br>lines of business and publish<br>financial statements and<br>other information in<br>accordance with Annex 1 on<br>its website | 0 | Latvijas dzelzceļš and its subsidiaries publish<br>information in accordance with Section 58 of the<br>Capital share law and publish information in<br>accordance with Annex 1 to the Code.<br>Since 2016, Latvijas dzelzceļš has been preparing<br>and publishing on its website a sustainability report<br>that is prepared in accordance with the guidelines<br>of the internationally recognised Global Reporting<br>Initiative (GRI). The report for 2022 is expected to<br>be published in June 2023. |
| 17.4     | The company provides<br>information in Latvian and in<br>at least one other language<br>that is understood by the<br>majority of the company's<br>foreign shareholders and<br>other stakeholders            | 0 | Information on the Latvijas dzelzceļš website is<br>available in Latvian and in English.  |

<sup>&</sup>lt;sup>44</sup> Cabinet Regulation No. 72 Procedures for forecasting, determining and making payments for the use of state capital of 25.01.2022 <sup>45</sup> Law on governance of capital shares of public persons and capital companies



## Independent Auditor's Report

## To the Shareholder of State joint stock company VAS "Latvijas dzelzceļš"

#### Our opinion

In our opinion, the accompanying consolidated financial statements set out on pages 18 to 63 of the accompanying consolidated annual report give a true and fair view of the financial position of VAS "Latvijas dzelzceļš" (the "Company") and its subsidiaries (together the "Group") as at 31 December 2022, and the Group's consolidated financial performance and consolidated cash flows for the year ended 31 December 2022 in accordance with the International Financial Reporting Standards as adopted by the European Union.

#### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2022,
- the consolidated statement of comprehensive income for the year ended 31 December 2022,
- the consolidated statement of financial position as at 31 December 2022,
- the consolidated statement of changes in equity for the year ended 31 December 2022,
- the consolidated statement of cash flows for the year ended 31 December 2022, and
- the notes to the consolidated 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 Consolidated 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 Group 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 consolidated 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

- information on the Group's parent company as set out on pages 3 to 4 of the accompanying consolidated annual report,
- the Management report (including Non-financial statement), as set out on pages 5 to 17 of the accompanying consolidated annual report,
- VAS "Latvijas dzelzceļš" statement on corporate governance in Latvijas dzelzceļš Group in 2022, which the Group's management has prepared as a separate report, as set out on pages 64 to 79 of the accompanying consolidated annual report,

but does not include the consolidated financial statements and our auditor's report thereon.

PricewaterhouseCoopers SIA

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

In connection with our audit of the consolidated 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 consolidated 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 on the Group's parent company, information given in the Management report and information given in the VAS "Latvijas dzelzceļš" statement on corporate governance in Latvijas dzelzceļš Group in 2022 for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

#### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

 Identify and assess the risks of material misstatement of the consolidated 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.

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- 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

llandra Lejiņa Member of the Board Certified auditor in charge Certificate No.168

Riga, Latvia 14 March 2023

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

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