State joint stock company “Latvijas dzelzceļš”

Annual Report for 2022

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

MANAGEMENT REPORT

ON THE ECONOMIC ACTIVITY OF THE STATE JOINT STOCK COMPANY *LATVIJAS DZELZCEĻŠ* IN 2022

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

State joint stock company VAS "Latvijas dzelzceļš" (hereinafter "*Latvijas dzelzceļš"* or "*the Company")* is one of the largest companies in Latvia, the economic activity of which makes a significant contribution to the national economy by ensuring the use of the railway infrastructure for passenger and freight transportation.

The main task of *the Company* is to operate the national public-use railway infrastructure and provide safe, high-quality, and efficient railway services in the interest of the Latvian state and economy. As 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, and other infrastructure objects.

The *Company* is the parent company of "Latvijas dzelzceļš" Group (hereinafter "*the Group")*. The *Group* consists of the parent company and six dependent companies, all of which together provide miscellaneous railway sector services to customers.. As at 30 December 2022, the Group had seven dependent companies (on six of which it had a direct decisive influence and on one of which it had an indirect decisive influence).

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

SIA "LDZ ritošā sastāva serviss" carries out technical maintenance and repairs of the railway rolling stock, locomotive equipping and modernising services, as well as locomotive, track machinery and plant rental services.

SIA "LDZ Loģistika" provides intermodal freight forwarding and logistics services, and is engaged in attracting and organising new freight transportation flows between countries in Europe and Asia.

SIA "LDZ apsardze" provides physical and technical security services to various 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's* companies, as well as to natural persons.

SIA "LDZ infrastruktūra" provided track machinery and plant rental services until 14 October 2022. Under Cabinet of Ministers Order No. 13 "*On the termination of the decisive influence of state joint stock company "Latvijas dzelzceļš" on and shareholding in the 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 the 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 sharholding in the limited liability company "Rīgas Vagonbūves Uzņēmums "Baltija""* of 12 January 2022, the liquidation procedure of the company 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" had a subsidiary - SIA "Rīgas Vagonbūves uzņēmums "Baltija"". Under Cabinet of Ministers Order No. 13 "*On the termination of the decisive influence of state joint stock company "Latvijas dzelzceļš" on and shareholding in the 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 the 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 the 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”.

Aimed at improving corporate governance practices and developing an understanding of social responsibility in the *Group*, as well as strengthening a sustainable yet innovative mindset in the tradition-rich railway sector, since 2016, *Latvijas dzelzceļš* has been producing sustainability reports in accordance with the internationally recognised guidelines of the Global Reporting Initiative (GRI standard). Furthermore, each year, the *Group’s* 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 sustainable development and corporate governance practices, the Sustainability Index experts awarded the Gold category to *Latvijas dzelzceļš* in June 2022. The following ratings were 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, whereas SIA “LDZ apsardze” and SIA LDZ Loģistika were awarded the Silver category.

Since 2012, *the Company* has been a member of the Ministry of Finance’s In-depth Cooperation Programme, which aims to foster closer and more effective cooperation between taxpayers and the tax administration while reducing the administrative burden. As a Gold-level member of the In-depth Cooperation Programme, *Latvijas dzelzceļš* receives statutory reliefs and advantages.

In 2022, *the Company* employed an average of 4,037 people, a decrease of 489 compared to 2021. The decrease in the number of employees was due to the *Company* implementing targeted measures in 2022 to optimise staffing levels and costs through a review of functions and changes to the organisational structure.

In 2022, the *Group* employed an average of 6 482 people, a decrease of 669 compared to 2021.

2. OPERATING PERFORMANCE

A key performance indicator of *Latvijas dzelzceļš* is the number of kilometres run by trains (train-km), which is the basis for calculating the infrastructure use charge and determining the depreciation of the infrastructure.

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 by 4.1% of passenger transportation, and a decrease of train-km of carried freight of 3.8%. In 2022, 4 463 thousand km were run to carry freight on the public-use infrastructure of *Latvijas dzelzceļš*, and 6 283 thousand train-km were run to carry passengers (including 48.1 thousand train-km run by SIA “Gulbenes-Alūksnes bānītis”).

The volume of freight transported in 2022 was 21 588 thousand tonnes, a reduction of 375 thousand tonnes or 1.7% compared to 21 963 thousand tonnes transported in 2021.

Imports accounted for 65.2% of freight transported, representing the largest share. In 2022, they totalled EUR 14 072, representing an increase of 4.4% compared to last year.

In 2022, the major share of freight carried was accounted for by coal (22.2%), petroleum and petroleum products (20.2%), and cereals, cereal products, seeds and fruit (20.0%). Fertiliser freight transport accounted for 4.1% in total freight, whereas the share of timber and timber products accounted for 4.5%. In 2022, the most commonly transported goods in the category "Other freight" were ores, which accounted for 1 979 thousand tonnes, chemical goods with 716 thousand tonnes, and minerals with 652 thousand tonnes.

In 2022, 15 694 thousand passengers were carried on the broad-gauge railway, which is a 40.2% increase over the previous year.

In 2022, *Latvijas dzelzceļš* continued to work on the priorities set in previous years - improving operational efficiency, reviewing business, organisational and technological processes to enhance the

Group's operational efficiency and reduce costs, and ensuring the Group's competitiveness and sustainability in the future.

In 2022, *the Company* reviewed its internal processes and changed technological processes with a view to achieving cost savings and efficiency improvements. The *Company* also ensures compliance with Regulation No. 01-02/60 of the Ministry of Transport "Procedure for monitoring the implementation of the financial stability of the public-use railway infrastructure manager" of 09.12.2022 (Regulation No 01-02/16 "Procedure for monitoring the implementation of the financial stability of the public-use railway infrastructure manager" until 05.10.2020).

Since the beginning of 2020, *the Company's* business has been considerably affected by the crisis caused by the COVID-19 pandemic and since March 2022 - by the external factors related to the changing geopolitical situation and the international economic sanctions imposed on Russia and Belarus as a result of the war waged in Ukraine.

Net turnover in 2022 was EUR 153 158 thousand, a decrease of EUR 4 552 thousand (2.9%) compared to 2021. Based on the obligations and responsibilities laid down in the Multi-Annual Agreement, the financial stability payment from the state budget of EUR 24 359 thousand was recognised as revenue in 2022. In 2021, the financial stability payment recognised as revenue was EUR 30 664 thousand. Excluding the financial stability payments from the state budget, which were recognised as revenue in these periods, the net revenue in 2022 has increased by EUR 1 753 thousand (1.4%) compared to the previous year.

The operating performance for 2022 was nil. Under the International Financial Reporting Standard guidelines, *Latvijas dzelzceļš* has recognised as revenue for 2022 the statutory funds necessary to ensure the financial stability of the national public-use railway infrastructure manager, in the amount of EUR 24 358 998, and will request them to be covered upon the approval of *the Company's* annual report.

Under the Ministry of Transport Order No. 01-03/25 "On the grant to VAS "Latvijas dzelzceļš" for compensating the costs of the minimum access service package and maintaining service sites in 2022" of 03.02.2022 and the Ministry of Transport Order No. 01-03/170 "On the grant to "VAS "Latvijas dzelzceļš"" for the use of the national public-use railway infrastructure for railway passenger transportation in 2022" of 01.12.2022, the state budget funding (grant) of EUR 30 324 873 was granted to and transferred to *Latvijas dzelzceļš*, of which EUR 30 113 757 was for ensuring the financial stability in the passenger transportation segment for the public-use railway infrastructure manager, and EUR 211 116 was for the maintenance of the unused service sites.

Under the Ministry of Transport Order No. 01-03/76 "On partial payment to VAS "Latvijas dzelzceļš" for ensuring the financial stability for 2020" of 31.05.2022, EUR 3 000 000 were granted as a financial stability payment, and in accordance with the Order No. 01-03/189 "On payment to VAS "Latvijas dzelzceļš" for ensuring the financial stability for 2020" of 20.12.2022, EUR 6 503 295 were granted as a financial stability payment. A total of EUR 9 503 295 were granted to and transferred to *Latvijas dzelzceļš* in 2022 for ensuring the financial stability for 2020.

Under the Ministry of Transport Order No. 01-03/196 "On payment to VAS "Latvijas dzelzceļš" for ensuring the financial stability for 2021", a total of EUR 30 664 125 were granted and transferred to *Latvijas dzelzceļš* in 2022 for ensuring financial stability for 2021.

In 2022, the *Company's* current assets exceeded its current liabilities by EUR 10 400 thousand. The total liquidity ratio was 1.1. Current liabilities include deferred income of EUR 19 360 thousand, which is related to investments in the public-use railway infrastructure funded by EU projects and from the state budget. Excluding deferred income related to investments in the public-use railway infrastructure funded by EU projects and from the state budget, the liquidity ratio was 1.4. As at 31 December 2022 and at the beginning of 2023, none of the non-current borrowings were in default.

As at 31 December 2022, the total debt to total assets ratio was 0.55. The main criterion in the assessment of the amount of liabilities is the level of financial risk. This risk is affected by sources and forms of financing of assets: as the share of borrowings on the balance sheet increases, so does the level of risk. Liabilities include deferred income related to investments in the public-use railway infrastructure funded by EU projects and from the state budget. Excluding deferred income related to the investments funded by EU projects and from the state budget, the debt/ asset ratio on the balance sheet was 0.19. When assessing financial ratios, it should be noted that co-financing received from the European Community Funds and from the state budget for the implementation of EU investment projects is presented in the balance sheet as a liability item under "Deferred income" and is recognised in the Statement of comprehensive income under "Other income" in the amount corresponding to the current year's depreciation on the created objects, which relate to the financial assistance received, whereas the depreciation of the objects is presented under "Depreciation, amortisation and impairment".

Despite declining rail freight volumes, the *Company* continued to maintain the quality of infrastructure and services provided as well las the required safety level. In 2022, the capital expenditure *of Latvijas dzelzceļš* totalled EUR 19 020 thousand:

- EUR 12 139 thousand were invested in renovation, of which
  - EUR 9 997 thousand – in capital repairs,
  - EUR 1 419 thousand – in the renewal of the existing IT systems,
  - during the reporting period, the technological plant for the repair and maintenance of tracks as well as equipment for the further development of information systems and means of communication and intangible assets totalling EUR 723 thousand were bought.
- EUR 6 881 thousand were invested in infrastructure development, of which
  - EUR 1 409 thousand – for the implementation of innovative technologies,
  - EUR 5 472 thousand – for other development.

Unfinished construction includes materials purchased for investment projects in the amount of EUR 186 thousand.

3. OBJECTIVES AND FUTURE DEVELOPMENT

The strategy and action plan of *Latvijas dzelzceļš* were accepted under Decision No. VL-34/240 of the Board of *Latvijas dzelzceļš* of 5 July 2021 and approved under Decision No. PA1.2./8-6 of the Council of *Latvijas dzelzceļš* of 14.07.2021.

The overall strategic goal of *Latvijas dzelzceļš* has been approved with the Cabinet of Ministers Order No. 421 of 16.06.2021 in the following wording: "To ensure 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 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 dzelzceļš* 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 - Ziemeļblazma 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.

The implementation of the project "Modernisation of the railway passenger infrastructure" co-financed by the Cohesion Fund has started in 2021; the project provides for the construction of the 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.

The contracts for construction work and construction supervision have been concluded for the project "Installation of fences and pedestrian crossings at the railway infrastructure facilities", as part of which the safety fences and crossings would be constructed at the most dangerous places with busier rail traffic and pedestrian flows, where the risk of accidents is greater. 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” 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. The construction and construction supervision contracts were concluded in 2022. Design works have been started.

In cooperation with Estonian company Eesti Raudtee AS, 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.

4. RESEARCH AND DEVELOPMENT ACTIVITIES

In 2022, *the Company’s* research and development (R&D) costs totalled EUR 1 342 thousand, of which internal spending on R&D was EUR 1 327 thousand; R&D costs on work contracted out to other institutions, companies and organisations totalled EUR 15 thousand. In 2021, R&D costs totalled EUR 1 621 thousand, of which internal R&D costs amounted to EUR 1 610 thousand.

5. NON-FINANCIAL STATEMENT

Latvijas dzelzceļš is one of the largest employers in the country, the industry and scale of the activity of which results in a situation that the *Company* has both a direct and indirect impact on a large number of people throughout Latvia. First and foremost, we speak about 4 037 employees of VAS “Latvijas dzelzceļš” on average, who work for the *Company* and are thus able to provide for their families, pay taxes and otherwise contribute to the national economy. In addition to the large number of employees, the activity of *Latvijas dzelzceļš* impacts everyone who uses rail services and lives near the rail infrastructure.

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 topical issues is the noise produced by rail transport, especially during freight transportation, and its impact on the health and well-being of people living near the railway. Aiming to reduce the impact of noise and vibrations, the action plan for noise reduction 2023 was developed by VAS “Latvijas dzelzceļš” and is currently being implemented, it defined the tasks and objectives for noise reduction on railway lines with a traffic intensity greater than 30 000 trains per year.

Latvijas dzelzceļš is a public-use railway infrastructure manager tasked not only with taking care of the quality, safety and development of the railway, but also to safeguarding 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 railway heritage.

Latvijas dzelzceļš always observes the principles of equality in its relations with employees – no person of a particular race, colour, gender, age, religious, political or other beliefs, or on grounds of national or social origin, property or marital status, sexual orientation or any other circumstance is given preference in employment legal relationships. In December 2022, *Latvijas dzelzceļš* employed 1 395 women (35.2% of the total workforce) and 2 570 men (64.8% of the total workforce). The relatively high number of women employed by the *Company* in an industry which has traditionally been dominated by men proves that *the Company* does not discriminate against its employees on the grounds of their gender and thus refutes the cliché of the railway as an all-male industry.

The employees of *Latvijas dzelzceļš* are not discriminated against on grounds of nationality. The *Company* does not keep track of the number of employees of a particular nationality, while it employs people of different nationalities: Latvians, Russians, Belarusians, Poles, Ukrainians, Lithuanians and employees of other nationalities.

Latvijas dzelzceļš Group has put the Personnel management and remuneration policy in place, which is also binding on the *Group’s* dominant company, i.e., VAS “Latvijas dzelzceļš”. The policy was designed to establish common guidelines, policies, guiding principles, key responsibilities, and areas of action for staff management, development and remuneration in the *Group*. The main objective of the remuneration policy is to motivate employees to achieve the strategic objectives and encourage all employees to contribute to improving the quality of work performance. At the same time, the Policy aims to ensure fair and competitive remuneration to employees for their work and contribution to the achievement of the *Group’s* objectives as well as to promote the development of employee competencies. The *Group’s* remuneration system is based on the principles of fairness, transparency, competitiveness and financial possibilities, purposefulness, and compliance with external laws.

Latvijas dzelzceļš Group’s corporate values, the principles of professional conduct and ethical behaviour that are aimed against corruption, conflicts of interest, illegal use of insider information, and any other illegal and unethical conduct are set out in the Code of Ethics of *Latvijas dzelzceļš*.

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

In order to regulate the conduct of employees in their dealings with suppliers, and business partners and in relation to the organization of business trips and the acceptance of gifts, and to establish procedures in the event of suspicion of possible corruption or fraud, the *Group’s* Anti-fraud policy has been put in place, which is closely related 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 an institution of a public person” and the Whistleblowing Law.

One of the strategic goals of VAS “Latvijas dzelzceļš” is to reduce the number of people injured and killed in train collisions. The *Group’s* Traffic safety policy is therefore one of the key elements of the *Company’s* safety management system. The policy aims to establish common principles and procedures for traffic safety management, taking into account the requirements of traffic safety laws and regulations, in order to prevent the occurrence of unacceptable risks. In addition to improving infrastructure safety, one of the ways is informing and educating the public regarding safe behaviour near the 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 Latvian 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 on how to behave properly and safely near the railway and on the train, and they learnt about many interesting things about the railway.

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

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

*The results have not yet been summarised for 2022, as 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 due to various economic and geopolitical processes the downward trend in freight transportation volumes that started in previous years continued in 2022. The decline in freight transportation volumes was significantly affected by the international sanctions imposed on Russian and Belarusian companies, individuals and goods after Russia’s invasion of Ukraine.

Information on the development, performance and financial position of *Latvijas dzelzceļš* 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 the railway traffic safety. The safety management system established by VAS “Latvijas dzelzceļš” has been integrated into the management and operational processes and includes 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.

To monitor the road safety situation, an internal Road safety monitoring system has been put in place as part of the Road safety policy of *Latvijas dzelzceļš Group*, which represents a set of periodic preventative measures. The main tools of the system are the monitoring of the road safety situation, surveys of the railway infrastructure, various checks, technical audits, technical training of railway staff, and traffic safety briefings.

Under the risk management policy of *Latvijas dzelzceļš Group*, irrespective of the assessment of individual risks and control measures taken, in making its decisions, the Group has set out that road safety risks are a priority risk and that measures to mitigate and control road safety risks are the priority measures to be taken.

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 rain water, noise levels and air pollutant emissions), surveying of sites contaminated with petroleum products, including historically contaminated sites, investigations and remediation measures are taken.
- Employees receive regular training to improve and test their knowledge and to keep them updated of the latest developments in the Company in the areas of environmental and energy management.
- Disaster preparedness and prevention trainings are organised jointly 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, the works are carried out near the tracks, i.e. the 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

Latvijas dzelzceļš Group companies adhere to the anti-corruption principles and principles for preventing conflicts of interest in their daily work. The *Group* has put its Anti-fraud policy in place 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 www.ldz.lv, 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 risks and take the necessary measures for ensuring operational compliance. The *Group* has put a unified legal provision policy in place to ensure a uniform and appropriate application of the applicable legal provisions. The primary business of the *Group's* companies is organised in compliance with the requirements of external laws, including the international sanctions legislation and changes thereto. To manage compliance risks, the procedures are revised and the existing internal controls are updated in line with the changes.

Risk to reputation

The companies of *Latvijas dzelzceļš Group* take measures to prevent and mitigate risks to reputation arising from external events caused intentionally or unintentionally, internal communication errors or inappropriate behaviour by employees. 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 *Company* has no foreign branches.

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

The external factors relating 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 regarding freight volumes will not improve significantly in the future.

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

Given the *Company'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 that have been put in place to date have not caused any material immediate damage to *the Company*, but predicting the possible impact of additional sanctions on the *Company's* operations 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 Company'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 *Company* 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 Company*, 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 field at *the Company* through a number of technical enhancements, as well as by setting up Sanctions Control Unit at the *Company*, which is responsible for sanction checks and by strengthening the exchange of information on sanction checks within the *Group*.

The Company'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 *Company's* operations.

However, despite the difficult situation, *Latvijas dzelzceļš's* 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 Company's primary task is 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.

In 2022 the funding required to achieve the financial stability is recognised as 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.

With a view to clearly presenting the recognised financial stability payment, the columns "2022 performance before the financial stability payments" and "2021 performance before the financial stability payments" have been added in the *Company's* Statement of Comprehensive Income. These disclosures are not required by International Financial Reporting Standards (IFRS) and are provided as a supplementary indicator to meet the requirements of the Multi-Annual Agreement for disclosures in the financial statements about the *Company's* profit or loss for the reporting year.

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 PREPARATION OF THE 2022 ANNUAL REPORT

In January 2023, under the Cabinet of Ministers 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 extension in 2020, under the aid mechanism developed by the state to compensate for the consequences resulting from the COVID-19 pandemic.

In addition, it should be noted that under the Cabinet Order No. 13 "*On the termination of the decisive influence of state joint stock company "Latvijas dzelzceļš" on and shareholding in the 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 the 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 the limited liability company Rīgas Vagonbūves Uzņēmums "Baltija"* of 12 January 2022, the shareholding of VAS "*Latvijas dzelzceļš"* in SIA "LDZ infrastruktūra" is planned to be terminated through liquidation at the beginning of 2023.

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. FINANCIAL PERFORMANCE

The financial result for the reporting period is nil due to the fact that *Latvijas dzelzceļš* has recognised the state funding to ensure the prescribed statutory financial stability of the public-use railway infrastructure manager.

11. STATEMENT ON THE RESPONSIBILITY OF THE BOARD

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

The financial statements of VAS "Latvijas dzelzceļš" on pages 14 to 59 have been prepared on the basis of accounting records and supporting documents and give a true and fair view of *the Company's* financial position as at 31 December 2022, and of its performance and cash flows for 2022.

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

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

Riga, see the date on the timestamp

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

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FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME FOR 2022

(EUR)

	NOTE	2022 RESULTS BEFORE FINANCIAL STABILITY PAYMENTS*	2022	2021 RESULTS BEFORE FINANCIAL STABILITY PAYMENTS*	2021
Revenue	4	128 799 299	153 158 297	127 046 379	157 710 504
Other income	5	21 907 521	21 907 521	21 996 547	21 996 547
Total operating income		**150 706 820**	**175 065 818**	**149 042 926**	**179 707 051**
Cost of goods, materials and services	6	(49 220 893)	(49 220 893)	(39 513 080)	(39 513 080)
Personnel expenses	7	(78 614 069)	(78 614 069)	(87 930 262)	(87 930 262)
Depreciation, amortisation and impairment	8	(51 088 788)	(51 088 788)	(50 099 213)	(50 099 213)
Other expenses	9	(2 351 073)	(2 351 073)	(864 069)	(864 069)
Total operating expenses		**(181 274 823)**	**(181 274 823)**	**(178 406 624)**	**(178 406 624)**
Operating profit / (loss)		**(30 568 003)**	**(6 209 005)**	**(29 363 698)**	**1 300 427**
Income from investments		4 545 819	4 545 819	145 070	145 070
in subsidiaries	*10*	*4 545 819*	*4 545 819*	*144 231*	*144 231*
in other companies	*11*	*-*	*-*	*839*	*839*
Gain from reversal of previously recognised impairment of investments	18	3 087 425	3 087 425	-	-
Finance income	12	372 852	372 852	423 434	423 434
Finance expenses	12	(1 797 091)	(1 797 091)	(1 868 931)	(1 868 931)
Loss before corporate income tax		**(24 358 998)**	**-**	**(30 664 125)**	**-**
Loss for the reporting year		**(24 358 998)**	**-**	**(30 664 125)**	**-**
Loss for the reporting year and comprehensive income attributable to the shareholder		**(24 358 998)**	**-**	**(30 664 125)**	**-**

* Please refer to Note 2.15 for the explanation of the presentation of additional non-IFRS measures.

The Notes on pages 20 to 59 form an integral part of these 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 Finance Department of VAS “Latvijas dzelzceļš”:
Finance Director R. Razums

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STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2022

(EUR)

ASSETS	NOTES	31.12.2022	31.12.2021
Long-term investments			
Property, plant and equipment	13	518 311 358	536 042 565
Right-of-use assets	14	5 189 116	7 497 666
Intangible assets	16	2 674 717	962 588
Advance payments for property, plant and equipment		29 782 267	10 491 828
Investments in subsidiaries	17, 18, 19	110 816 648	121 982 718
Loans to affiliated companies	21	17 357 499	23 826 503
Other long-term financial investments	22	73 982	84 108
Total long-term investments		**684 205 587**	**700 887 976**
Current assets			
Inventories	23	3 848 088	4 844 425
Trade and other receivables	24	7 046 165	3 752 736
Loans to affiliated companies	21	4 158 161	5 516 492
Receivables from related parties	39	3 857 869	5 055 985
Accrued income		24 358 998	40 167 420
Cash and cash equivalents	25	59 016 340	36 098 259
Total current assets		**102 285 621**	**95 435 317**
Total assets		**786 491 208**	**796 323 293**

(continued on the next page)

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2022 (CONTINUED)

(EUR)

EQUITY AND LIABILITIES	NOTE	31.12.2022	31.12.2021
Equity and liabilities			
Equity			
Share capital	26	327 621 636	289 142 391
Reserves and retained earnings		23 613 416	62 092 661
Total equity		**351 235 052**	**351 235 052**
Liabilities			
Non-current liabilities			
Provisions	27	262 650	250 857
Borrowings from credit institutions	28	66 309 363	90 556 751
Trade payables		1 356 010	930 116
Taxes and compulsory national social insurance contributions	30	6 824 314	19 437 751
Lease liabilities		3 173 540	5 197 208
Deferred income	29	265 444 269	250 209 081
Total non-current liabilities		**343 370 146**	**366 581 764**
Current liabilities			
Borrowings from credit institutions	28	24 247 388	30 058 772
Provisions	27	155 986	776 696
Trade and other payables		26 258 298	17 265 928
Payables to related parties	39	2 596 083	2 684 701
Taxes and compulsory national social insurance contributions	30	16 798 318	5 849 734
Lease liabilities		2 084 739	2 390 272
Deferred income	29	19 745 198	19 480 374
Total current liabilities		**91 886 010**	**78 506 477**
Total liabilities		**435 256 156**	**445 088 241**
Total equity and liabilities		**786 491 208**	**796 323 293**

The Notes on pages 20 to 59 form an integral part of these financial statements.

Riga, see the date on the timestamp

Chairman of the Board R. Pļavnieks

Member of the Board V. Balode-Andrūsa

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Finance Director R. Razums

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STATEMENT OF CHANGES IN EQUITY

(EUR)

	SHARE CAPITAL	RESERVES	RETAINED EARNINGS	TOTAL EQUITY
		2021		
At 01.01.2021	**289 142 391**	**38 479 245**	**23 613 416**	**351 235 052**
Profit/ (loss) for the year	-	-	-	-
At 31.12.2021	**289 142 391**	**38 479 245**	**23 613 416**	**351 235 052**
		2022		
01.01.2022	**289 142 391**	**38 479 245**	**23 613 416**	**351 235 052**
Profit/ (loss) for the year	-	-	-	-
Increase in share capital (Note 26)	38 479 245	(38 479 245)	-	-
At 31.12.2022	**327 621 636**	**-**	**23 613 416**	**351 235 052**

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STATEMENT OF CASH FLOWS
FOR 2022 (UNDER THE INDIRECT METHOD)

(EUR)

	NOTES	2022	2021
Cash flow from operating activity			
Profit before corporate income tax		**-**	**-**
Adjustments:			
Depreciation of property, plant and equipment and other impairment adjustments		32 900 501	32 124 655
Amortisation of intangible assets and other impairment adjustments	16	503 877	422 414
Foreign currency exchange rate fluctuation gains	5	(28 278)	(167 377)
Income from investments in affiliated companies	10; 11	(4 545 819)	(145 070)
Income from the adjustment of investment impairment, net		(3 077 299)	-
Other interest and similar income	12	(372 852)	(423 434)
Interest and similar expenses	12	1 797 091	1 868 931
Profit before working capital adjustments		**27 177 221**	**33 680 119**
Adjustments:			
Decrease / (increase) in prepayments and receivables		13 587 442	(29 986 754)
Decrease in inventories		1 136 586	1 591 697
Increase in trade and other payables		3 285 264	7 191 856
Gross cash flow from operating activity		**45 186 513**	**12 476 918**
Interest paid		(1 676 065)	(1 895 422)
Net cash flow from operating activity		***43 510 448***	***10 581 496***
Cash flow from investing activity			
Cash received on liquidation of the affiliated company		4 884 491	-
Acquisition of property, plant and equipment and intangible assets		(37 442 007)	(15 048 454)
Proceeds from the sale of property, plant and equipment and intangible assets		1 650 840	796 237
Subsidies or grants received	29	30 098 034	6 178 653
Proceeds from loan repayment	21	8 026 408	14 426 025
Interest received		301 410	429 518
Dividends received	10; 11	4 545 819	145 070
Net cash flow from investing activity		***12 064 995***	***6 927 049***

(continued on next page)

STATEMENT OF CASH FLOWS
FOR 2022 (CONTINUED)

(EUR)

	NOTES	2022	2021
Cash flow from financing activity			
Borrowings received	28	-	10 540 322
Borrowings repaid	28	(30 058 772)	(48 753 099)
Lease payments		(2 647 069)	(2 660 638)
Net cash used in financing activity		***(32 705 841)***	***(40 873 415)***
Foreign currency exchange rate fluctuation gain		**48 479**	**161 398**
Changes in cash and cash equivalents during the year		**22 918 081**	**(23 203 472)**
Cash and cash equivalents at the beginning of the reporting year		36 098 259	59 301 731
Cash and cash equivalents at the end of the reporting year	**25**	**59 016 340**	**36 098 259**

The Notes on pages 20 to 59 form an integral part of these 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 Finance Director of VAS “Latvijas dzelzceļš”:
Finance Director R. Razums

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NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE COMPANY

Name of the company	VAS “Latvijas dzelzceļš”
Legal status of the company	State joint stock company
Address	Gogoļa iela 3, Riga, LV-1547
Uniform registration number	40003032065
Date of registration in the Register of Enterprises	01.10.1991
Date of registration in the Commercial Register	10.09.2004
Place of registration	Riga
Date of issue of the certificate of registration	10.09.2014
Type of main activity (NACE Rev. 2)	42.12 Construction of railways and underground railways 52.21 Service activities incidental to land transportation
Shareholder	The Republic of Latvia (100%)
Holder of capital shares	Ministry of Transport of the Republic of Latvia Gogoļa iela 3, Riga, LV-1743
Supervisory body	Council of the Company
Council	Jānis LANGE, chairman of the Council Andris LIEPIŅŠ, deputy chairman of the Council Reinis CEPLIS, member of the Council Andris MALDUPS, member of the Council until 13.01.2023 Juris KALENUKS, member of the Council from 02.02.2022 to 13.01.2023
Board	Rinalds PĻAVNIEKS, member of the Board, chairman of the Board from 10.02.2023 Vita BALODE-ANDRŪSA, member of the Board Māris KLEINBERGS, chairman of the Board until 09.02.2023 Ēriks ŠMUKSTS, member of the Board until 14.01.2022
Name, address and the certified auditor in charge	SIA “PricewaterhouseCoopers” Uniform reg. No. 40003142793 LZRA commercial company licence No. 5 Kr. Valdemāra iela 21-21 Riga, LV-1010 Latvia Sworn auditor in charge Ilandra Lejiņa Certificate No. 168
Reporting year	1 January 2022 to 31 December 2022

2. ACCOUNTING AND MEASUREMENT PRINCIPLES

The financial statements present the financial position of *Latvijas dzelzceļš* as a separate entity. The financial position of *the Group* (the state joint stock company *Latvijas dzelzceļš* and its subsidiaries) is presented in the consolidated financial statements.

The financial statements cover the period from 1 January to 31 December 2022. The financial statements are approved by the general meeting of shareholders convened by the Board of *Latvijas dzelzceļš* after receipt of the auditor's opinion and the Council's report.

2.1. ACCOUNTING AND MEASUREMENT PRINCIPLES

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. Considering the EU's adoption process, the standards and interpretations that have not been adopted for use in the EU are also disclosed in this note because the said standards and interpretations, if adopted, may affect the Company's financial statements in the future periods.

The financial statements have been prepared in accordance with the historical cost convention and the going concern principle.

International Financial Reporting Standards require the *Company's Management* to make such assumptions and judgements in preparing financial statements, which affect the reported amounts of assets and liabilities as well as disclosures that are to be made at the reporting date, and the amounts of revenue and expenses recognised in the reporting period. Actual results may differ from these estimates. The areas requiring making significant or complex assumptions, or areas where assumptions and estimates are significant to the financial statements, 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 *Company'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:

- *Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the conceptual framework (IFRS) – narrow scope amendments to IAS 16, IAS 37, and IFRS 3 and Annual Improvements to IFRSs 2018-2020 - 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 *Company's* financial statements and whose impact is currently being assessed by *the Company'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 Company's Management has assessed the impact of other standards and interpretations that will become effective as of 1 January 2023 and does not expect them to have a material impact on the *Company's* financial statements.

2.2. FOREIGN CURRENCY REVALUATION

Functional and presentation currency

Items included in the financial statements are measured using the currency of the economic environment in which *the Company* operates (the functional currency). Financial statement items are presented in the official currency of the Republic of Latvia*,* the euro (EUR), which is *the Company'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 being translating 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 Statement of comprehensive income.

Foreign currency exchange rates

FOREIGN CURRENCY	CURRENCY UNITS PER 1 EUR 31.12.2022	CURRENCY UNITS PER 1 EUR 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.

Subsequently, 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 Company* and if the costs can be measured reliably. Other costs are recognised in the Statement of comprehensive income as incurred.

For intangible assets, amortisation is calculated on a straight-line basis to write off their cost over their useful lives, and is recognised in the Statement of comprehensive income for the respective period. Intangible assets are generally amortised over 5 years.

2.4. PROPERTY, PLANT AND EQUIPMENT

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

Purchase costs include costs directly attributable to the purchase of the property, plant and equipment item. The cost of self-constructed property, plant and equipment items consists of the cost of materials and direct labour costs, as well as any other costs directly attributable to bringing the asset into working condition for its intended purpose, and the costs of demolishing and removing the asset and restoring the site where the asset 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 Company capitalises property, plant and equipment with a cost of more than EUR 500 and a useful life exceeding one year. Investments in leased property, plant and equipment are capitalised and recognised as property, plant and equipment.

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

Subsequent costs are recognised in the carrying amount of the asset or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to *the Company* and if the cost of the item can be measured reliably. Other current repairs and maintenance costs of property, plant and equipment are recognised in the Statement of comprehensive income in the period in which they are incurred.

Gains or losses on disposal of property, plant and equipment are calculated as the difference between the asset's carrying amount and the proceeds on disposal and recognised in the Statement of comprehensive income for the period.

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

Depreciation

The depreciation of property, plant and equipment is calculated on a straight-line basis and recognised in the Statement of comprehensive income.

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 into which investments in leased property, plant and equipment are classified. Land is not depreciated.

For the *Company's* property, plant and equipment, the depreciation charge for the reporting period is calculated by reference to the carrying amount of each asset, applying the useful life determined for the asset.

PROPERTY, PLANT AND EQUIPMENT	USEFUL LIFE
Buildings and structures	10-130 years
Perennial plantings	40 years
Railway rolling stock - wagons for technological purposes	22-40 years
Railway rolling stock - locomotives, diesel trains and plant	5-40 years
Track equipment	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 *Company'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 Statement of comprehensive income.

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

2.6. FINANCIAL INSTRUMENTS

Classification of financial instruments

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

The classification of debt instruments depends on the business model adopted by *the Company* 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* may elect 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 profit or loss.

Recognition and derecognition

Financial assets are recognised when the *Company* 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 Company's* contractual right to the cash flows arising from the financial assets expire or when *the Company* 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 Company* 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 profit or loss

This category includes *the Company's* equity instruments 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 using the estimates made by *the Company's Management,* which are based on the financial information about these investments. Changes in fair value are recognised in profit or loss.

Dividends on investments are recognised in the Statement of comprehensive income when the *Company* 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, receivables from affiliated companies, and 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 into 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 Company* recognises an immediate 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 significant 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 Company 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 taking into account the last three years of payment history, adjusted to take into account 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, taking into account 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 Statement of comprehensive income.

Financial liabilities at amortised cost

Financial liabilities at amortised cost include borrowings from credit institutions, other borrowings, trade and other payables, and payables to related companies.

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 Statement of comprehensive income on a straight-line basis, using the borrowing's effective interest rate. This difference is recognised under finance expenses.

Borrowings are classified as current liabilities unless the *Company* 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 financial liabilities

Financial assets and financial 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 *Company'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 Statement of comprehensive income.

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

The *Company's* share capital consists of ordinary registered shares. All of *the Company's* shares are dematerialised shares. Each share has a nominal value of one euro.

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

2.9. OTHER RESERVES

After the approval of each annual report, the general meeting of shareholders decides on the distribution of the profit for the reporting year. By the resolution of the *Company's* general meeting of shareholders, some of the *Company's* after-tax profit may be transferred to reserves. For this purpose, Other reserves have been created under equity. The appropriation and distribution of Other reserves lies within the competence of the general meeting of shareholders.

2.10. 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.

2.11. PROVISIONS

Provisions are recognised when *the Company* 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 Company* 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 Statement of comprehensive income, net of amounts recovered.

2.12. CORPORATE INCOME TAX

Corporate income tax is calculated in accordance with the laws effective at the end of the reporting period. The current laws provide for a tax rate of 20 percent on the calculated taxable amount, divided by 0.8 before the application of the tax rate. Corporate income tax charged on distributions of dividends is shown separately in the Statement of comprehensive income, and otherwise as an expense under Other operating expenses.

2.13. REVENUE RECOGNITION

Revenue is the consideration received as a result of carrying out operating activity. Revenue is measured at the contractual transaction price. The transaction price is the amount that *the Company* 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 bonuses granted to the customer. The specific criteria for recognising revenue of *the Company* for each type of revenue are set out below.

The Company does not have any contracts with a customer that have a settlement period of more than one year and therefore *the Company* does not make adjustments to reflect changes in the value of money over time. In addition, the settlements do not provide for a variable consideration.

Revenue from the sale of goods is recognised when control over them is transferred, i.e., when the *Company* has delivered the goods to a customer, 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, at the ratio of the total service provided to the total contracted service, if applicable.

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

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 carrying of passenger has been suspended. Revenue from the received grants (excluding VAT), up to the amount of the funding received (excluding VAT), is recognised in the period in which the services are rendered.

Service point maintenance services – services in connection with the use of passenger stations and stops. The Company provides the following services at passenger stations: ticket counters, passenger notification systems, and facilities for passenger use. 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 point services - freight wagon sorting and assembly services (handling of freight wagons with or without train formation), wagon maintenance and inspection, current siding repairs, wagon storage services, etc. Revenue is recognised in the period in which the services are rendered.

Rental services - *the Company* rents out buildings, structures, land and other property, plant and equipment that are unnecessary for the operation of 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 trading 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 dzelzceļš* 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 dzelzceļš* 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 the submission of import declarations, the performance of a customs procedure - transit, and temporary storage. Revenue is recognised in the period in which the services are rendered. *The Company* provided the principal's services until 31 March 2022. From 1 April 2022, the principal's services for all goods in all railway sections are provided by SIA "LDZ CARGO".

Electronic communications services – data and electronic messaging services, leased line services, access to the electronic communications network infrastructure services. 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 – own-construction works on the railway infrastructure objects. Revenue is recognised in the period in which the services are rendered.

Other services – management services for subsidiaries, 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.

2.14. LEASES

Classification

At the inception of the contract, *the Company* assess 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 *Company* 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 *Company* has the right to all economic benefits from the use of the identifiable asset for its useful life;
- *The Company* has the right to determine the use to which the identifiable asset is put. *The Company* 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 *Company* 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 Company* 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 Company attributes, to each lease component, its relative stand-alone price.

Lessee

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

- The initial measurement amount of the 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 there are plans to redeem the asset. The right-of-use asset is reduced periodically by 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 *Company'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 the rate used to measure those payments has changed, the *Company's* estimate of the expected payments changes, or the *Company* changes its assessment of whether to exercise a purchase 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 Statement of comprehensive income 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 Statement of comprehensive income over the lease term to produce a constant periodic rate of interest on the remaining lease liability each period.

Short-term lease and lease with a low-value underlying asset

Lease payments related to the short-term leases or leases for which the underlying asset is of low-value 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 Company* is a lessor)

The case where the *Company* is the lessor under the contract but part of the leased assets is leased further to a third party, results in the sublease transaction. 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 Company* is the lessor under the terms of an operating lease or the *Company* is the lessor under the terms of a finance lease. If the sublease is a finance lease, it is accounted for separately as a lease receivable. Offsetting is not performed.

Accounting for sublease transactions:

- *The Company*, as an intermediate lessor, reduces the "right-of-use asset" by creating 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 Company*, 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 in full interest expense on the lease liability.

2.15. CO-FINANCING FROM THE STATE BUDGET AND EU FUNDS

Co-financing from the state budget and EU funds is recognised at fair value if there is reasonable certainty that the funds will be received and it can be reasonably argued that *the Company* 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 those assets (property, plant and equipment) over their useful lives.

Pursuant to the provisions of the Multi-Annual Agreement, *the Company* has added columns “2022 performance before financial stability payments” and “2021 performance before financial stability payments” in the Statement of comprehensive income. Although not required by IFRS, this non-IFRS indicator has been presented in the financial statements to provide readers with a fair view of the *Company’* s financial position if the financial stability payments were not received.

2.16. RELATED PARTIES

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

2.17. EVENTS AFTER THE BALANCE SHEET DATE

The financial statements reflect events after the end of the reporting year that provide additional information about the *Company’s* financial position at the balance sheet date (adjusting events). If the 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.

2.18. EMPLOYEE BENEFITS

Social insurance and pension plan contributions

The Company 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 Company* is required to make contributions of the prescribed statutory amount. The *Company* 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 *Regulation on the composition of the national social insurance contribution rates by type of national 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.

2.19. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are measured at cost less impairment losses.

The Company recognises income only if it receives a share of the profits from its subsidiary arising after the acquisition date. Amounts received in excess of these profits are treated as recoveries of the investment and are recognised as a reduction of the cost of the investment.

If there is objective evidence that the carrying amount of investment in the subsidiary is impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and its recoverable amount. An impairment loss on an investment may be reversed if, after the impairment loss was last recognised, the estimates used to measure the impairment have changed.

2.20. COMPARATIVE INFORMATION AND ACCOUNTING FOR THE TERMINATION OF DECISIVE INFLUENCE

Under Cabinet Order No. 13 "*On the termination of decisive influence of state joint stock company "Latvijas dzelzceļš" on and shareholding in the limited liability company "LDZ infrastruktūra" and on the termination of indirect decisive influence of the 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 the limited liability company "Rīgas Vagonbūves Uzņēmums "Baltija""* dated 12 January 2022*,* the liquidation procedure of SIA "LDZ infrastruktūra" was commenced in 2022.

At the beginning of December 2022, according to the asset distribution plan, all assets owned by SIA "LDZ infrastruktūra" had been transferred to the company's sole shareholder *Latvijas dzelzceļš*. As at 31 December 2022, the company's liquidation was not registered in the Commercial Register, as the ownership title to the transferred assets was in the registration process in the state registers.

As a result of the termination of the decisive influence, the balance sheet indicators of *the Company* at the end of the reporting year are not directly comparable with those as at 31 December 2021, as they reflect the assets received from the subsidiary that was undergoing liquidation at the end of the reporting year. See more detailed information on the takeover of the assets in Note 18.

3. SIGNIFICANT ASSUMPTIONS AND JUDGEMENTS

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

The preparation of financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the amounts of assets and liabilities reported and the disclosures in the notes at the reporting date and the income and expenses recognised 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, as described below. Apart from the areas mentioned below, there are no other areas that involve significant or complex assumptions or where the assumptions and estimates made are significant to the financial statements.

Useful life of property, plant and equipment

The *Company* assesses the remaining useful life of its property, plant and equipment at the end of each reporting period. Based on the most recent assessments carried out by the *Company's* Finance Department, the applied useful lives of *the Company's* property, plant and equipment are consistent with their actual useful lives.

Impairment of property, plant and equipment

An impairment loss is recognised for the property, plant and equipment that are not used in operations and for those assets whose expected future economic benefits are significantly lower than their carrying amount. The most significant impairment amount was recognised in respect of buildings, structures and tracks 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 *Company's* assets are divided into cash-generating units – geographical rail track sections. Each section was assessed for any indicators of impairment and the sections with such indicators were tested for impairment. The main impairment indicators are 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, a total EUR 5.8 million impairment loss was recognised for four 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 *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%.

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 impairment should be recognised when WACC is above the threshold of 7.52%, i.e., 0.77% higher.

Financial stability payment

The primary task of *the Company* 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 future periods.

4. REVENUE

(EUR)

TYPES OF OPERATION	2022	2021
Revenue from contracts with customers (IFRS 15) :		
Fees for the use of public-use railway infrastructure	50 637 169	54 505 014
Ancillary services of the infrastructure manager	21 752 113	19 059 715
Electricity distribution and sale services	11 168 661	6 480 146
Information technology services	4 060 272	3 641 748
Services at passenger stations	1 059 279	1 003 178
Specific services relating to maintaining and repairing the infrastructure	852 821	2 013 156
Electronic communications services	725 987	615 869
Principal's services*	638 407	1 245 053
Construction services	36 420	90 722
Other services	3 076 757	3 757 055
Other types of revenue:		
Revenue from the maintenance of the railway infrastructure (State budget funding)	30 113 757	30 068 006
Revenue from ensuring the financial stability **	24 358 998	30 664 125
Lease/ rental services	4 466 540	4 309 495
Revenue from maintaining service points (state budget funding)	211 116	257 222
Total	**153 158 297**	**157 710 504**

**Latvijas dzelzceļš* provided the principal's services until 31 March 2022;

**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 the *Company* 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 circumstances in 2021 were identical.

The required financial stability payment of EUR 24 358 998 to be received during 2023 has been recognised in the Statement of Financial Position as “Accrued revenue”, based on the obligations and responsibilities set out in the Multi-Annual Agreement. In 2022, *Latvijas dzelzceļš* received EUR 40 167 420 (EUR 9 503 295 for ensuring the financial stability for 2020, and EUR 30 664 125 for 2021, i.e., the full financial stability payment for 2021 and the remaining balance for 2020).

To present the total recognised expense for the financial stability in the financial statements, additional columns “2022 performance before the financial stability payments” and “2021 performance before the financial stability payments” were added in the *Company’s* Statement of comprehensive income. These disclosures are not required under the IFRS and are provided as a supplementary indicator to meet the requirements of the Multi-Annual Agreement on disclosures in the financial statements in respect of the *Company’s* profit or loss for the reporting year.

5. OTHER INCOME

(EUR)

	2022	2021
Gradual recognition of deferred income	17 814 164	17 584 079
Gain on sale of property, plant and equipment	1 566 001	762 597
Revenue from the “Pedestrian Tunnel in Ogre” construction project*	1 471 542	-
Adjustment to other provisions (see Note 27)	199 073	335 240
Fines and late payment interest	144 788	158 450
Gain on sale of inventories	80 843	2 586 532
Foreign currency exchange rate fluctuations	28 278	167 377
Financing to implement the on-the-job-training project	4 380	9 215
Other income	598 452	393 057
Total	**21 907 521**	**21 996 547**

* This revenue was generated upon transferring the Pedestrian tunnel in Ogre to the Ministry of Transport.

6. COST OF GOODS, MATERIALS AND SERVICES

(EUR)

	2022	2021
Electricity	15 719 924	9 119 463
Cost of materials	4 447 756	4 092 970
Charges for manoeuvre work	3 954 695	3 874 815
Cost of security services and maintenance of security equipment	3 759 361	3 665 013
Rent and utilities, the maintenance of a boiler house	3 507 925	2 667 166
Cost of current repairs of property, plant and equipment, other repair costs	3 365 882	2 564 734
Heating and fuel costs	3 095 112	1 947 971
Costs of the railway sector administration institutions	2 292 589	2 292 589
Servicing of information software, licence payments	2 529 259	2 113 086
Payments for the work of locomotive and service site crews in the operating activity	1 403 099	1 196 947
Road transport maintenance, registration, and roadworthiness test expenses	709 554	707 020
Telecommunications service related expenses	615 890	720 212
Real estate tax	589 229	593 649
Third-party civil liability insurance expenses	432 255	430 262
Membership fees for transnational organisations	311 452	309 633
Other expenses*	2 486 911	3 217 550
Total	**49 220 893**	**39 513 080**

* *Other expenses include fees for the services provided by the sworn auditor company SIA "PricewaterhouseCoopers":*

(EUR)

	2022	2021
For the audit of the financial statements	51 287	50 600
For performing other expert engagements	10 900	-

7. PERSONNEL EXPENSES

(EUR)

	2022	2021
Wages and salaries	62 103 071	66 301 664
Compulsory national social insurance contributions	14 679 268	16 535 379
Severance pay	210 441	3 788 590
Employee supplementary pension insurance	288 469	319 512
Other compulsory national social insurance contributions	1 652 823	471 949
Changes in accruals for annual leaves	(428 984)	389 073
Other personnel expenses	108 981	124 095
Total	**78 614 069**	**87 930 262**
of which remuneration of the members of the *Company's* Board and Council	586 556	610 184
incl. remuneration for work	*474 598*	*493 769*
Compulsory national social insurance contributions	*111 958*	*116 415*

8. DEPRECIATION, AMORTISATION AND IMPAIRMENT

(EUR)

	2022	2021
Depreciation of property, plant and equipment and intangible assets	44 012 698	43 763 606
Impairment of property, plant and equipment and intangible assets	4 874 177	4 081 242
Depreciation of right-of-use assets	2 525 693	2 528 979
Changes in the provision for obsolete materials (see Note 23)	(323 780)	(274 614)
Total	**51 088 788**	**50 099 213**

9. OTHER EXPENSES

(EUR)

	2022	2021
Cost of the construction project "Pedestrian tunnel in Ogre"	1 471 542	-
Expenses provided for in the collective bargaining agreement of *Latvijas dzelzceļš Group*	290 889	307 474
Loss on disposal of property, plant and equipment and on disposal of unfinished construction	129 293	257 696
Adjustment of the provision for bad debts (see Note 24)	97 760	36 769
Adjustment of other provisions	29 709	5 448
Foreign currency conversion	10 762	15 135
Expenses for maintaining social infrastructure	2 229	107
Fines and late payment interest	1 438	3 399
Corporate income tax	114	-
Other expenses	317 337	238 041
Total	**2 351 073**	**864 069**

10. INCOME FROM INVESTMENTS IN SUBSIDIARIES

(EUR)

	2022	2021
Dividends received from *Latvijas dzelzceļš* subsidiaries:	**4 545 819**	**144 231**
SIA "LDZ CARGO"	4 000 000	-
SIA "LDZ ritošā sastāva serviss"	376 253	-
SIA "LDZ Loģistika"	40 642	-
SIA "LDZ apsardze"	100 000	112 000
AS "LatRailNet"	28 924	32 231

11. INCOME FROM INVESTMENTS IN OTHER COMPANIES

(EUR)

DIVIDEND INCOME	2022	2021
Belarusian-Latvian joint venture ''MIRIGO''	-	839
Total	**-**	**839**

12. FINANCE INCOME AND EXPENSES, NET

(EUR)

	2022	2021
Finance income	**372 852**	**423 434**
Other interest income	372 852	423 434
Finance expenses	**(1 797 091)**	**(1 868 931)**
Interest payments on borrowings	(1 670 625)	(1 753 660)
Interest expense on lease transactions	(81 818)	(115 271)
Late payment fines for extending the tax payment term	(44 648)	-
Finance expenses, net	**(1 424 239)**	**(1 445 497)**

13. PROPERTY, PLANT AND EQUIPMENT

(EUR)

	LAND PLOTS	BUILDINGS, STRUCTURES AND PERENNIAL PLANTINGS	TRACKS	LONG-TERM INVESTMENTS IN LEASED ASSETS	PLANT AND MACHINERY	COMPUTERS, EQUIPMENT AND SUPPLIES, COMMUNICATIONS EQUIPMENT, PHOTOCOPIERS AND THEIR FITTINGS	OTHER PROPERTY, PLANT AND EQUIPMENT	COST OF UNFINISHED CONSTRUCTION OBJECTS	TOTAL
Historical cost at 01.01.2022	**851 290**	**205 891 459**	**855 906 440**	**105 292**	**308 202 008**	**38 844 682**	**31 433 582**	**3 751 041**	**1 444 985 794**
Acquisition and completion of property, plant and equipment	-	810 178	4 949 411	-	3 043 044	1 031 078	518 316	8 052 728	18 404 755
Property, plant and equipment received from the subsidiary undergoing liquidation (see Note 18)	-	36 661	103 405	-	7 979 642	4 955	993 528	42 167	9 160 358
Property, plant and equipment received from the Ministry of Transport (Rail Baltica project) (see Note 29)	-	587 565	-	-	969 073	4 523 383	3 756	-	6 083 777
Reclassified (see Note 16)	-	(10 648)	14 387	-	34 737	(4 020 720)	-	(38 476)	(4 020 720)
Disposals	-	(1 977 521)	(2 017 904)	-	(747 927)	(599 905)	(581 122)	(49 859)	(5 974 238)
Historical cost at 31.12.2022	**851 290**	**205 337 694**	**858 955 739**	**105 292**	**319 480 577**	**39 783 473**	**32 368 060**	**11 757 601**	**1 468 639 726**
Accumulated depreciation at 01.01.2022	**-**	**123 982 808**	**531 744 329**	**74 078**	**174 086 767**	**32 169 346**	**24 965 712**	**-**	**887 023 040**
Depreciation charge	-	3 795 919	26 552 569	7 803	10 096 791	2 106 793	1 026 303	-	43 586 178
Reclassified (see Note 16)	-	(90)	90	-	-	(2 383 186)	-	-	(2 383 186)
Write off of depreciation	-	(1 912 457)	(1 923 852)	-	(735 091)	(599 779)	(566 210)	-	(5 737 389)
Accumulated depreciation at 31.12.2022	**-**	**125 866 180**	**556 373 136**	**81 881**	**183 448 467**	**31 293 174**	**25 425 805**	**-**	**922 488 643**
Impairment of property, plant and equipment at 01.01.2022	**37 801**	**3 751 960**	**16 910 628**	**-**	**586 471**	**483 681**	**149 648**	**-**	**21 920 189**
Impairment in the reporting year*	-	15 734	5 900 936	-	2 866	-	-	-	5 919 536
Impairment of property, plant and equipment at 31.12.2022	**37 801**	**3 767 694**	**22 811 564**	**-**	**589 337**	**483 681**	**149 648**	**-**	**27 839 725**
Carrying value at 01.01.2022	**813 489**	**78 156 691**	**307 251 483**	**31 214**	**133 528 770**	**6 191 655**	**6 318 222**	**3 751 041**	**536 042 565**
Carrying value at 31.12.2022	**813 489**	**75 703 820**	**279 771 039**	**23 411**	**135 442 773**	**8 006 618**	**6 792 607**	**11 757 601**	**518 311 358**

**In 2022, an impairment loss of EUR 5 919 536 was recognised for property, plant and equipment. This included an impairment charge of EUR 5 843 220 recognised for property, plant and equipment in four railway sections (Ciekurkalns - Krasta, Daugavpils - Indra, Karsava - Kleperova and Rezekne - Daugavpils) where freight transportation volumes have declined considerably and an impairment of EUR 76 316 was recognised for 7 individual assets not used in the business and not expected to be sold in the foreseeable future.*

In 2022, the wages and salaries capitalised in the cost of property, plant and equipment amounted to EUR 1 216 452 (2021: EUR 1 268 852). In 2022, EUR 37 442 007 (2021: EUR 15 048 454) were spent on the renewal, modernisation and acquisition of property, plant and equipment, intangible assets and the construction of new objects.

Throughout 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) had been transferred into use to *Latvijas dzelzceļš*.

(EUR)

	LAND PLOTS	BUILDINGS, STRUCTURES AND PERENNIAL PLANTINGS	TRACKS	LONG-TERM INVESTMENTS IN LEASED PPE	PLANT AND MACHINERY	COMPUTERS AND THEIR SUPPLIES, COMMUNICATIONS EQUIPMENT, PHOTOCOPIERS AND THEIR FITTINGS	OTHER PROPERTY, PLANT AND EQUIPMENT	COST OF UNFINISHED CONSTRUCTION	TOTAL
Historical cost at 01.01.2021	**855 252**	**204 922 556**	**852 872 385**	**105 292**	**309 750 405**	**39 578 025**	**31 469 444**	**1 273 517**	**1 440 826 876**
Additions and completion of property, plant and equipment	5 571	1 281 943	5 181 533	-	970 138	1 543 483	644 149	2 477 524	12 104 341
Reclassified	-	(1 641)	-	-	963	(93)	771	-	-
Disposals	(9 533)	(311 399)	(2 147 478)	-	(2 519 498)	(2 276 733)	(680 782)	-	(7 945 423)
Historical cost at 31.12.2021	**851 290**	**205 891 459**	**855 906 440**	**105 292**	**308 202 008**	**38 844 682**	**31 433 582**	**3 751 041**	**1 444 985 794**
Accumulated depreciation at 01.01.2021	**-**	**120 619 402**	**506 807 045**	**66 273**	**166 891 292**	**32 154 767**	**24 554 447**	**-**	**851 093 226**
Depreciation charge	-	3 613 135	26 782 922	7 805	9 646 279	2 288 521	1 067 279	-	43 405 941
Reclassified	-	(11)	-	-	(668)	(92)	771	-	-
Write off of depreciation	-	(249 718)	(1 845 638)	-	(2 450 136)	(2 273 850)	(656 785)	-	(7 476 127)
Accumulated depreciation at 31.12.2021	**-**	**123 982 808**	**531 744 329**	**74 078**	**174 086 767**	**32 169 346**	**24 965 712**	**-**	**887 023 040**
Impairment of property, plant and equipment at 01.01.2021	**37 801**	**2 182 327**	**15 220 032**	**-**	**325 116**	**-**	**89 985**	**-**	**17 855 261**
Impairment in the reporting year*	-	1 569 633	1 690 596	-	261 355	483 681	59 663	-	4 064 928
Impairment of property, plant and equipment at 31.12.2021	**37 801**	**3 751 960**	**16 910 628**	**-**	**586 471**	**483 681**	**149 648**	**-**	**21 920 189**
Carrying value at 01.01.2021	**817 451**	**82 120 827**	**330 845 308**	**39 019**	**142 533 997**	**7 423 258**	**6 825 012**	**1 273 517**	**571 878 389**
Carrying value at 31.12.2021	**813 489**	**78 156 691**	**307 251 483**	**31 214**	**133 528 770**	**6 191 655**	**6 318 222**	**3 751 041**	**536 042 565**

**In 2021, an impairment loss of EUR 4 064 928 was recognised on property, plant and equipment. Impairment has been 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.*

In 2021, the wages and salaries capitalised in the cost of property, plant and equipment amounted to EUR 1 268 852. In 2021, EUR 15 048 454 were spent on the renewal, modernisation and acquisition of property, plant and equipment, intangible assets and the construction of new objects.

14. RIGHT-OF-USE ASSETS

(EUR)

	RIGHT-OF-USE OF LAND PLOTS	RIGHT-OF-USE OF BUILDINGS AND STRUCTURES	RIGHT-OF-USE OF TRACKS	RIGHT-OF-USE OF PLANT AND MACHINERY	RIGHT-OF-USE OF COMPUTERS AND THEIR FITTINGS, COMMUNICATIONS EQUIPMENT, PHOTOCOPIERS AND THEIR FITTINGS	RIGHT-OF-USE OF OTHER PROPERTY, PLANT AND EQUIPMENT	TOTAL
Historical cost at 01.01.2022	**472 674**	**4 758 365**	**2 523 747**	**1 313 733**	**1 019 409**	**4 299 398**	**14 387 326**
New lease contracts	30 878	-	-	-	-	106 296	137 174
Amendments to contracts and termination of contracts	(29 734)	(49 791)	(26 155)	(683 928)	-	(387 924)	(1 177 532)
Historical cost at 31.12.2022	**473 818**	**4 708 574**	**2 497 592**	**629 805**	**1 019 409**	**4 017 770**	**13 346 968**
Accumulated depreciation at 01.01.2022	**195 930**	**1 537 280**	**1 523 494**	**1 062 130**	**727 668**	**1 843 158**	**6 889 660**
Depreciation charge	71 870	541 972	512 400	326 029	242 556	931 567	2 626 394
Write off of depreciation	(20 368)	-	(31 384)	(882 384)	-	(424 066)	(1 358 202)
Accumulated depreciation at 31.12.2022	**247 432**	**2 079 252**	**2 004 510**	**505 775**	**970 224**	**2 350 659**	**8 157 852**
Carrying value at 01.01.2022	**276 744**	**3 221 085**	**1 000 253**	**251 603**	**291 741**	**2 456 240**	**7 497 666**
Carrying value at 31.12.2022	**226 386**	**2 629 322**	**493 082**	**124 030**	**49 185**	**1 667 111**	**5 189 116**

(EUR)

	RIGHT-OF-USE OF LAND PLOTS	RIGHT-OF-USE OF BUILDINGS AND STRUCTURES	RIGHT-OF-USE OF THE TRACKS	RIGHT-OF-USE OF PLANT AND MACHINERY	RIGHT-OF-USE OF COMPUTERS AND THEIR FITTINGS, COMMUNICATIONS EQUIPMENT, PHOTOCOPIERS AND THEIR FITTINGS	RIGHT-OF-USE OF OTHER PROPERTY, PLANT AND EQUIPMENT	TOTAL
Historical cost at 01.01.2021	**409 110**	**3 086 235**	**4 254 956**	**1 386 099**	**1 019 409**	**4 294 922**	**14 450 731**
New lease contracts	64 941	10 430	-	-	-	41 172	116 543
Amendments to contracts and termination of contracts	(1 377)	1 661 700	(1 731 209)	(72 366)	-	(36 696)	(179 948)
Historical cost at 31.12.2021	**472 674**	**4 758 365**	**2 523 747**	**1 313 733**	**1 019 409**	**4 299 398**	**14 387 326**
Accumulated depreciation at 01.01.2021	**122 526**	**922 285**	**1 062 398**	**783 422**	**485 112**	**934 102**	**4 309 845**
Depreciation charge	73 404	561 091	515 000	319 950	242 556	951 983	2 663 984
Write off of depreciation	-	53 904	(53 904)	(41 242)	-	(42 927)	(84 169)
Accumulated depreciation at 31.12.2021	**195 930**	**1 537 280**	**1 523 494**	**1 062 130**	**727 668**	**1 843 158**	**6 889 660**
Carrying value at 01.01.2021	**286 584**	**2 163 950**	**3 192 558**	**602 677**	**534 297**	**3 360 820**	**10 140 886**
Carrying value at 31.12.2021	**276 744**	**3 221 085**	**1 000 253**	**251 603**	**291 741**	**2 456 240**	**7 497 666**

15. RESEARCH AND DEVELOPMENT EXPENSES

(EUR)

COSTS	2022	2021
Internal spending on research and development carried out in *the Company**	1 327 327	1 609 955
External spending on research and development contracted to other institutions, undertakings, and organisations	15 247	11 175
Total	**1 342 574**	**1 621 130**

*of which spending on property, plant and equipment for carrying out research and development work (capital expenditure) amounted to EUR 1 217 800.

In 2022, EUR 1 190 727 of own funds and EUR 136 000 of European Commission funds (including EU Structural Funds) were used to finance the work carried out in *the Company*.

In 2022, ten employees were employed in R&D, with the calculated remuneration of EUR 83 862.

16. INTANGIBLE ASSETS

(EUR)

LICENCES AND RIGHTS	2022	2021
Historical cost at the beginning of the year	**9 386 912**	**9 203 082**
Additions	578 472	257 684
Reclassified from the property, plant and equipment category	4 020 720	-
Disposals	(31 243)	(73 854)
Historical cost at the end of the year	**13 954 861**	**9 386 912**
Accumulated amortisation at the beginning of the year	**8 408 010**	**8 075 102**
Amortisation charge	503 877	406 100
Reclassified from the property, plant and equipment category	2 383 186	-
Disposals	(31 243)	(73 192)
Accumulated amortisation at the end of the year	**11 263 830**	**8 408 010**
Impairment	**16 314**	**16 314**
Carrying value at the beginning of the year	**962 588**	**1 127 980**
Carrying value at the end of the year	**2 674 717**	**962 588**

17. INVESTMENTS IN SUBSIDIARIES

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	01.01.2022 – 31.12.2022
SIA “LDZ ritošā sastāva serviss”	
Uniform registration number	40003788351
Registered office	Turgeneva 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	Gogola 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”	
Uniform registration number	40103361063
Registered office	Turgeneva iela 21, Riga, LV-1050
Shareholding, %	100% shareholder - VAS “Latvijas dzelzceļš”
Reporting year	01.01.2022 – 31.12.2022
SIA “LDZ Logistika”	
Uniform registration number	40003988480
Registered office	147 Dzirnavu Street, 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 serviss” **SIA “Rīgas Vagonbūves uzņēmums “Baltija””**(merged into SIA “LDZ ritošā sastāva serviss” on 30.12.2022)	
Uniform registration number	40103419565
Registered office	Turgeneva iela 14, Riga, LV-1050
Shareholding, %	100% shareholder - SIA LDZ ritošā sastāva serviss
Reporting period	01.01.2022 – 30.12.2022

18. TERMINATION OF DECISIVE INFLUENCE IN THE SUBSIDIARY

SIA "LDZ INFRASTRUKTŪRA"

Uniform registration number	40003788258
Registered office	Gogola iela 3, Riga, LV-1050
Shareholding, %	100% shareholder - VAS "Latvijas dzelzceļš"
NBV of shares at 31.12.2021	EUR 11 166 070
NBV of shares at 31.12.2022.	0
Reporting period	01.01.2022 – 31.12.2022

SIA "LDZ infrastruktūra" provided track machinery and plant rental services until 14 October 2022. The liquidation of SIA "LDZ infrastruktūra", which was started in 2022 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 limited liability company "Rīgas Vagonbūves Uzņēmums "Baltija"" and on the termination of decisive influence of limited liability company "LDZ ritošā sastāva serviss" on and shareholding in limited liability company "Rīgas Vagonbūves uzņēmums "Baltija"")* dated 12 January 2022, will be completed in 2023.

Upon liquidating the subsidiary, in December 2022, the property (assets) of the subsidiary of SIA "LDZ infrastruktūra" were distributed. In accordance with the asset distribution plan, on 2 December 2022, *the Company* received all the assets of the subsidiary undergoing liquidation as a liquidation quota. Given that SIA "LDZ infrastruktūra" has distributed all of its assets and settled its liquidation quota in full, the investment in this subsidiary has been written off in full. The write-off of the investment resulted in the recognition of a gain of EUR 3 million on the previously recognised impairment adjustment.

Since the assets of SIA "LDZ infrastruktūra" are still being registered with the state registers, the liquidation of SIA "LDZ infrastruktūra" on 31 December 2022 has not yet been entered in the Register of Enterprises.

The takeover of the assets of the subsidiary undergoing liquidation had the following effect on the *Company's* assets:

	(EUR)
Assets taken over	
Land plots, buildings and engineering structures	140 066
Plant and machinery	7 979 642
Other property, plant and equipment and inventories	998 483
Assets under construction and the cost of unfinished construction objects	42 167
Advance payments for property, plant and equipment	107 209
Total long-term investments	**9 267 567**
Raw materials, basic materials and consumables	101 437
Cash	4 884 491
Total current assets	**4 985 928**
Total assets	**14 253 495**
Write-off of the investment in the subsidiary upon liquidation	11 166 070
Adjustment of impairment previously recognised on investment in the subsidiary (the result of the liquidation in the Statement of comprehensive income)	**3 087 425**

19. CARRYING VALUE OF INVESTMENTS IN SUBSIDIARIES

(EUR)

SUBSIDIARY	LDZ'S SHARES, %	At 31.12.2022	At 31.12.2021
SIA "LDZ CARGO"	100	80 492 369	80 492 369
SIA "LDZ ritošā sastāva serviss"*	100	29 351 905	29 351 905
SIA "LDZ infrastruktūra"	100	-	11 166 070
SIA "LDZ apsardze"	100	298 803	298 803
AS "LatRailNet"	100	35 571	35 571
SIA"LDZ Loģistika"	100	638 000	638 000
Total	**X**	**110 816 648**	**121 982 718**

** SIA "LDZ ritošā sastāva serviss" was a 100% shareholder of SIA "Rīgas Vagonbūves Uzņēmums "Baltija"" until 30.12.2022.*

Long-term financial investments in the equity of the subsidiaries have been measured in the accounting records *of Latvijas dzelzceļš* at historical cost less accumulated impairment, if any.

20. SUBSIDIARIES' PERFORMANCE INDICATORS FOR 2022

(EUR)

SUBSIDIARY	LDZ'S SHARES, %	2022 PROFIT/ (LOSS)	2021 PROFIT/ (LOSS)	EQUITY	
				At 31.12.2022	At 31.12.2021
SIA "LDZ CARGO"	100	5 104 139	7 054 410	122 856 401	121 752 262
SIA "LDZ ritošā sastāva serviss"	100	(325 226)	752 505	36 356 347	37 057 826
SIA "LDZ infrastruktūra"	100	1 661 575	(10 241)	-	12 591 920
SIA "LDZ apsardze"	100	193 367	119 646	736 121	642 754
AS "LatRailNet"	100	37 569	57 848	139 711	131 066
SIA "LDZ Loģistika"	100	711 989	81 283	2 001 670	1 330 323
Total	**x**	**7 383 413**	**8 055 451**	**162 090 250**	**173 506 151**

Latvijas dzelzceļš Group manages public-use railway infrastructure, provides railway transportation services and the services related thereto. *The Group* includes: the *Group'* s parent company – state joint stock company "Latvijas dzelzceļš", SIA "LDZ CARGO", SIA "LDZ ritošā sastāva serviss", SIA "LDZ infrastruktūra", SIA "LDZ apsardze", SIA "LDZ Logistika", AS "LatRailNet", and the subsidiary of SIA "LDZ ritošā sastāva serviss" – SIA "Rīgas Vagonbūves Uzņēmums "Baltija"" (until 30.12.2022).

The Group has developed a unified strategy and objectives, ensuring an optimal allocation of resources between business lines and *Group* companies, coordination of decision-making and effective monitoring of the implementation of decisions. *Latvijas dzelzceļš* represents *the Group's* interests at the international level.

Latvijas dzelzceļš provides the minimum access service package to public-use railway services and access to public-use railway infrastructure connecting railway infrastructure with service points, provided for in Section 12.[1], Paragraph one of the Railway Law, freight wagon handling, 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 rail freight transportation related services.

SIA "LDZ ritošā sastāva serviss" carries out technical maintenance and repairs of the railway rolling stock, equips and modernises locomotives, and provides locomotive, track machinery and equipment rental services.

SIA "LDZ Loģistika" provides intermodal freight forwarding and logistics services, and is engaged in attracting and organising new freight transportation flows between countries in Europe and Asia.

SIA "LDZ apsardze" provides physical and technical security services to various 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's* companies, and to natural persons.

AS "LatRailNet" performs the essential functions of a railway infrastructure manager. This company decides on the allocation of 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 a subsidiary SIA "Rīgas Vagonbūves uzņēmums "Baltija"". 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 "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, 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".

21. LOANS TO AFFILIATED COMPANIES

On 31.12.2022, the balance of the loan granted to SIA "LDZ ritošā sastāva serviss" to finance the modernisation of diesel locomotives was EUR 21 515 660. During 2022, SIA "LDZ ritošā sastāva serviss" made a partial early repayment of the loan, significantly reducing the outstanding loan amount.

Movement in loan balances is presented in the table below:

(EUR)

LOANS TO AFFILIATED UNDERTAKINGS	BALANCE AT 01.01.2022 (GROSS CARRYING AMOUNT)	RECLASSIFIED ACCORDING TO MATURITY DATE	PROCEEDS FROM REPAID LOANS	BALANCE AT 31.12.2022 (GROSS CARRYING AMOUNT)	PROVISION FOR EXPECTED CREDIT LOSSES*	BALANCE AT 31.12.2022. (NET BOOK VALUE)
Non-current portion	24 094 897	(6 616 176)	-	17 478 721	(121 222)	17 357 499
Current portion	5 629 203	6 616 176	(8 026 408)	4 218 971	(60 810)	4 158 161
Total	**29 724 100**	**-**	**(8 026 408)**	**21 697 692**	**(182 032)**	**21 515 660**

(EUR)

LOANS TO AFFILIATED UNDERTAKINGS	BALANCE AT 01.01.2021. (GROSS CARRYING AMOUNT)	RECLASSIFIED ACCORDING TO MATURITY DATE	PROCEEDS FROM REPAYMENT OF LOANS	BALANCE AT 31.12.2021 (GROSS CARRYING AMOUNT)	PROVISIONS FOR FORESEEABLE CREDIT LOSSES	BALANCE AT 31.12.2021. (NET BOOK VALUE))
Non-current portion	39 313 868	(15 218 971)	-	24 094 897	(268 394)	23 826 503
Current portion	4 323 745	15 218 971	(13 913 513)	5 629 203	(112 711)	5 516 492
Total	**43 637 613**	**-**	**(13 913 513)**	**29 724 100**	**(381 105)**	**29 342 995**

** In 2022, provisions for expected credit losses were reviewed and reduced to EUR 182 032. The decrease in provisions was mainly due to a decrease in the loan balance.*

22. OTHER LONG-TERM FINANCIAL INVESTMENTS

(EUR)

NAME OF THE COMPANY	SHARES, %	NBV

		At 31.12.2022	At 31.12.2021
Belarus-Latvia joint venture MIRIGO	3.0	10 126	10 126
SIA "STREK"	5.84	73 982	73 982
Gross carrying amount	**X**	**84 108**	**84 108**
Impairment of financial investments		**(10 126)**	**-**
Net book value		**73 982**	**84 108**

23. INVENTORIES

(EUR)

	At 31.12.2022	At 31.12.2021
Road surface materials	4 047 789	4 387 074
Other materials	1 619 980	1 342 532
Spare parts	315 111	232 602
Heating materials and fuel	311 643	174 827
Other inventories and work in progress	4 760	1 482 365
Gross carrying amount	**6 299 283**	**7 619 400**
Provisions for obsolete materials	(2 451 195)	(2 774 975)
Net book value*	**3 848 088**	**4 844 425**

** of which EUR 101 437 received from the liquidation of SIA "LDZ infrastruktūra": spare parts of EUR 69 724, materials of EUR 30 362, fuel EUR of 1 351 (see Note 18).*

24. TRADE AND OTHER RECEIVABLES

(EUR)

	At 31.12.2022	At 31.12.2021
Trade receivables	5 545 839	2 477 980
Doubtful debts	822 796	766 149
Other receivables	1 500 326	1 274 756
Gross carrying amount	**7 868 961**	**4 518 885**
Provisions for impairment of receivables	(822 796)	(766 149)
Net book value	**7 046 165**	**3 752 736**

(EUR)

MOVEMENT IN PROVISIONS FOR IMPAIRMENT OF RECEIVABLES	2022	2021
Provisions for impairment of receivables at the beginning of the year	766 149	733 181
Reduction of provisions due to recovered receivables	(21 549)	(19 999)
Decrease in provisions due to write-off of debts	(41 112)	(3 993)
Additional provisions created	119 308	56 960
Provisions for impairment of receivables at the end of the year	**822 796**	**766 149**

To estimate the expected impairment, receivables were grouped by their risk characteristics and days past due (detailed information is also provided in Note 31). Expected loss rates were based on historical repayment rates, defined as the ratio of lost debt to revenue over the last 36 months (from 31 December 2022 or 1 January 2022, respectively). Historical loss ratios were adjusted to reflect current and projected information on macroeconomic factors affecting the ability of customers to settle with *the Company*. GDP forecasts are considered the most important factor, as they have the most direct impact on changes in bad debts.

At 31 December 2022 and at 1 January 2022, the provisions for trade receivables that are either not past due or less than 6 months past due were immaterial and therefore recognised in the financial statements at nil value.

Similar calculations have been made for related party receivables, loans granted to related parties, other receivables, and cash and cash equivalents, except that these calculations were not based on historical experience but on default rates of external credit rating agencies for similar borrowers or groups of borrowers. This approach has been chosen because *the Company* does not have historical loss data for these classes of financial assets. Based on the calculations, at 31 December 2021 it was concluded that the credit quality of these assets was not good and therefore an expected credit loss of EUR 381 thousand was recognised. Further on, the amount of recognised credit losses was reduced to EUR 182 thousand as at 31 December 2022 when assessing the credit quality of the subsidiaries and the total loan balance.

Under the *Company's* accounting policy, for trade receivables that are past the due date by more than 6 months, a provision for expected credit losses of 100% is generally made, with adjustments made only to reflect the probable recoverability of such receivables.

25. CASH AND CASH EQUIVALENTS

(EUR)

	AT 31.12.2022	AT 31.12.2021
Cash at bank	59 014 126	36 098 064
Cash on hand	2 214	195
Total	**59 016 340**	**36 098 259**

26. SHARE CAPITAL

Registered and paid-up share capital of *the Company*

The share capital of *Latvijas dzelzceļš* is EUR 327 621 636, consisting of three hundred twenty-seven million six hundred twenty-one thousand six hundred thirty-six shares, with a nominal value of EUR 1 (one EUR) per share (at 31 December 2021: EUR 289 142 391). On 24 November 2022, the general meeting of shareholders passed the resolution to increase the share capital *of Latvijas dzelzceļš* by EUR 38 479 245 (Paragraph 3 of the minutes of 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 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. An increase in share capital was achieved through the contribution of reserves.

All shares are owned by the Republic of Latvia and have been fully paid up. The shares of the joint stock company are held by the Ministry of Transport. All shares of *the Company* carry the same dividend, liquidation proceeds, and voting rights.

27. PROVISIONS

(EUR)

	At 31.12.2022	At 31.12.2021
Other provisions	262 650	250 857
Total non-current portion	**262 650**	**250 857**
Provisions for severance pay	144 897	773 397
Other provisions	11 089	3 299
Total current portion	**155 986**	**776 696**
Total	**418 636**	**1 027 553**

Movement in provisions by type of provisions in 2022

(EUR)

	01.01.2022	DECREASE/ INCREASE IN PROVISIONS, NET	At 31.12.2022
Provisions for severance pay	773 397	(628 500)	144 897
Other provisions	254 156	19 583	273 739
Total	**1 027 553**	**(608 917)**	**418 636**

Movement in provisions by type of provisions in 2021

(EUR)

	At 01.01.2021	INCREASE IN PROVISIONS, NET	At 31.12.2021
Provisions for severance pay	-	773 397	773 397
Other provisions	248 708	5 448	254 156
Total	**248 708**	**778 845**	**1 027 553**

28. BORROWINGS FROM CREDIT INSTITUTIONS

(EUR)

	At 31.12.2022	At 31.12.2021
Non-current borrowings from credit institutions	66 309 363	90 556 751
Current borrowings from credit institutions	24 247 388	30 058 772
Total borrowings from credit institutions	**90 556 751**	**120 615 523**

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, EUR 30 058 772 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).

The *Company’s* loan agreements with banks provide for the relevant 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 BORROWING	BORROWING, EUR	INTEREST RATE
EUR	67 419 632	3M EURIBOR + 0.77% to 3.5%
	23 137 119	6M EURIBOR + 0.75% to 1.1%
Total	**90 556 751**	

Borrowings repayable and interest rates at 31 December 2021:

BORROWING CURRENCY	BORROWING, EUR	INTEREST RATE
EUR	89 774 848	3M EURIBOR + 0.77% to 3.5%
	30 840 675	6M EURIBOR + 0.24% to 1.1%
Total	**120 615 523**	

Movement in borrowings and calculated interest

(EUR)

	2022	2021

Borrowings and calculated interest at the beginning of the reporting period	**120 698 790**	**158 938 057**
Borrowings received during the reporting period	-	10 540 322
Calculated interest during the reporting period	1 670 625	1 753 660
Repayment of borrowings during the reporting period	(30 058 772)	(48 753 099)
Interest paid during the reporting period	(1 549 599)	(1 780 150)
Borrowings and calculated interest at the end of the reporting period	**90 761 044**	**120 698 790**

29. DEFERRED INCOME

(EUR)

	At 31.12.2022	At 31.12.2021
Non-current portion of deferred income (EU fund and the state budget funding)	265 378 437	250 141 983
Other deferred income	65 832	67 098
Total non-current portion	**265 444 269**	**250 209 081**
Current portion of deferred income (EU fund and the state budget funding)	19 360 066	19 054 798
Other deferred income	385 132	425 576
Total current portion	**19 745 198**	**19 480 374**
Total deferred income	**285 189 467**	**269 689 455**

Major source of the deferred income is financing received from EU funds and the state budget for the development of the railway infrastructure.

Movement of EU and state budget project financing in 2022

(EUR)

DEFERRED INCOME	NBV AT 01.01.2022	RECLASSIFIED (TRANSFERRED)	FUNDS RECEIVED	TRANSFER OF FUNDS TO THE PARTNER	DECREASE IN THE AMOUNT OF THE FIXED ASSETS DEPRECIATION	NBV AT 31.12.2022
Non-current portion	250 141 983	(20 945 357)	36 263 967	(82 156)	-	265 378 437
Current portion	19 054 798	20 945 357	-	-	(20 640 089)	19 360 066
Total	**269 196 781**	**-**	**36 263 967**	**(82 156)**	**(20 640 089)**	**284 738 503**

Payments received in 2022 from the EU funds:

- EUR 5 357 915 for the project “Modernisation of the Riga railway junction section Sarkandaugava-Mangaļi-Ziemelblazma”,
- EUR 11 470 468 for the project “Modernisation of the railway passenger infrastructure”,
- EUR 11 587 698 for the project “Modernisation of the railway infrastructure to increase train traffic speed”,
- EUR 1 542 238 for the project “Installation of fencing and pedestrian crossings at the railway infrastructure objects” and
- EUR 221 871 for the project “Building an interoperable railway system in the Baltic States”.

The value of the rebuilt property, plant and equipment received from the Ministry of Transport as part of the Rail Baltica project of EUR 6 083 777 has been accounted for.

Under the “Contract authorising the construction works” concluded with SIA “Eiropas dzelzceļa līnijas”, as part of the project “Development of the building design and construction works of the construction project for the Rail Baltica Riga railway bridge, embankment and the Riga Central Passenger Station Complex”, construction works are to be carried out on the structures owned or possessed by *Latvijas dzelzceļš*, their relocation, renovation, reconstruction, demolition and construction of new buildings. However, according to the “Acceptance - Handover 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 netted of against the depreciation of the objects during their useful life.

As part of the project "Development of an interoperable railway system in the Baltic States", *Latvijas dzelzceļš*, as the beneficiary, transferred EUR 82 156 to Eesti Raudtee AS under the terms of the concluded cooperation agreement.

Movement of EU fund and state budget project financing in 2021

(EUR)

DEFERRED INCOME	BALANCE AT 01.01.2021	RECLASSIFIED (TRANSFERRED)	FUNDS RECEIVED	REPAYMENT OF UNUSED FUNDS	DECREASE IN THE AMOUNT OF THE FIXED ASSETS DEPRECIATION	BALANCE AT 31.12.2021
Non-current portion	261 261 523	(17 298 193)	6 178 653	-	-	250 141 983
Current portion	19 340 684	17 298 193	-	-	(17 584 079)	19 054 798
Total	**280 602 207**	**-**	**6 178 653**	**-**	**(17 584 079)**	**269 196 781**

30. TAXES AND COMPULSORY NATIONAL SOCIAL INSURANCE CONTRIBUTIONS

(EUR)

TYPE OF TAX	TAX LIABILITIES At 31.12.2022	TAX LIABILITIES At 31.12.2021
Compulsory national social insurance contributions	13 605 754	14 142 600
Personal income tax	5 544 638	5 713 954
Value added tax	4 459 415	5 418 893
Natural resources tax	10 905	10 336
Business risk duty	1 432	1 509
Company light vehicle tax	248	31
Vehicle use tax	157	157
On numbering use right	45	5
Corporate income tax	38	-
Total	**23 622 632***	**25 287 485**

** In 2022, non-current liabilities totalled EUR 6 824 314, and current liabilities totalled EUR 16 798 318.*

As at 31.12.2022, *Latvijas dzelzceļš* had no tax arrears to the state budget.

Amounts of personal income tax and value added tax with a payment term exceeding one year are accounted for as non-current liabilities in accordance with the decision of the State Revenue Service of 20.12.2022 "On extension of payment deadlines". A further five-year extension of the tax payment deadline has been granted again for the tax amounts arising from the COVID-19 pandemic emergency situation.

31. FINANCIAL RISK MANAGEMENT

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

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

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

(EUR)

	AT 31.12.2022	AT 31.12.2021
Financial assets at amortised cost		
Trade and other receivables, excluding advances	55 278 366	77 044 380
Cash and cash equivalents	59 016 340	36 098 259
Financial assets at fair value with revaluation through profit or loss		
Long-term financial investments	73 982	84 108
Total financial assets	**114 368 688**	**113 226 747**
Financial liabilities at amortised cost		
Borrowings from credit institutions	90 556 751	120 615 523
Trade and other payables, including lease liabilities, excluding advances (including non-current portion)	35 362 152	28 421 683
Total financial liabilities	**125 918 903**	**149 037 206**

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 *Company'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 arising from changes in interest rates on *the Company's* assets and liabilities. *The Company* is exposed to the risk of changes in market interest rates on its non-current variable rate liabilities.

All of *the Company's* borrowings have variable interest rates. See Note 28 for a detailed description of the borrowing rates. The *Company* manages the risk of changes in interest rates by regularly assessing the borrowing rates available in the market. If interest rates lower than current rates are available, *the Company* evaluates the financial cost-effectiveness of loan restructuring.

The Company does not use derivatives to manage interest rate risk.

Interest rate sensitivity

The table below shows the sensitivity of *the Company's* profit before tax to reasonably possible changes in interest rates at the end of each reporting period presented, holding all other variables constant. There is no impact on *the Company's* equity other than the performance for the year.

	2022		2021	
	INCREASE/ BASE RATE DECREASE (BASE POINTS)	IMPACT ON PROFIT BEFORE TAX (EUR)	BASE RATE INCREASE/ DECREASE (BASE POINTS)	IMPACT ON PROFIT BEFORE TAX (EUR)
EURIBOR	(+100)	(905 567)	(+100)	(1 206 155)
	(-100)	905 567	(-100)	1 206 155

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 Company* 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 in *euros*. A detailed breakdown of financial instruments by currency is provided in Note 34.

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

The Company's Management has decided not to use derivative financial instruments to manage currency risks.

Currency sensitivity

The Company did not have any significant foreign currency balances during the year, so the potential impact of exchange rate fluctuations was immaterial.

Credit risk

Credit risk is the risk that a counterparty might default on their obligations to *the Company*, causing the Company to incur considerable financial losses. *The Company* is exposed to credit risk arising directly from its business activities, principally trade receivables, and to credit risk related to *the Company's* financing activities, principally cash deposits with banks.

Trade receivables

The *Company* manages trade receivable credit risk in accordance with the *Group's* policies. The solvency of customers is assessed before entering into a contract. *The Company* hedges its credit risk by receiving prepayments from its customers.

The Company continuously monitors its receivables balances to minimise the possibility of uncollectible debts. Possible impairment of trade receivables is analysed on an ongoing basis.

The Company has not received any pledges as collateral for trade receivables.

At 31 December 2022, *the Company* had 4 customers (3 customers in 2021) who each owed *the Company* more than EUR 700 thousand, representing 93.8% (96.4% in 2021) of the total receivables. Excluding debts of subsidiaries that were not yet due for payment at 31 December 2022, more than EUR 700 thousand were owed by three customers, representing 83.9% of the total receivables.

The Company has not put an internal credit rating system for assessing trade receivables in place.

There were no material changes in expected credit losses on trade receivables during 2022.

Trade receivables are written off only when their collectability is unlikely. Indicators of the 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 maximum credit risk to which *the Company* is shown in the table below:

(EUR)

	AT 31.12.2022	AT 31.12.2021
Cash and cash equivalents	59 016 340	36 098 259
Trade and other receivables (gross amount), excluding advances and prepayments	56 283 194	78 191 634
Total	**115 299 534**	**114 289 893**

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

(EUR)

	Not past due	More than 30 days past due	More than 90 days past due	More than 120 days past due	Total
Expected credit loss rate	0.38%	2.00%	11.00%	96.00%	
Loans to related companies	21 697 692	-	-	-	**21 697 692**
Trade and other receivables (gross amount)	33 710 974	43 939	2 939	827 650	**34 585 502**
Expected credit losses	(209 082)	(879)	(323)	(794 544)	**(1 004 828)**

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

(EUR)

	Not past due	More than 30 days past due	More than 90 days past due	More than 120 days past due	Total
Expected credit loss rate	0.51%	2.00%	11.00%	95.00%	

Loans to related companies	29 724 100	-	-	-	**29 724 100**
Trade and other receivables (gross amount)	47 654 544	16 116	1 155	795 719	**48 467 534**
Expected credit losses	(390 871)	(322)	(127)	(755 934)	**(1 147 254)**

Cash deposits

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

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

(EUR)

CREDIT RATING	AT 31.12.2022	AT 31.12.2021
Aa3	312 219	9 584 594
A3	58 384 864	26 513 038
Unrated*	317 042	432
Total	**59 014 125**	**36 098 064**

**Ratings have not been granted to VAS "Latvijas pasts" (state-owned company), AS BluOr Bank and Kazakhstan pay platform.*

Liquidity risk

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

The *Company's* Finance Directorate manages liquidity risk by maintaining adequate cash buffer and securing sufficient funding through the received borrowings, lines of credit, finance leases, etc., as well as by continuously monitoring projected and actual cash flows and matching the maturity structure of financial assets and financial liabilities.

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

The performance for 2022 was zero due to the fact that *Latvijas dzelzceļš* was entitled to receive funding for ensuring the financial stability of the national public-use railway infrastructure manager as provided for in the laws and regulations.

In 2022, *the Company's* current assets exceeded its current liabilities by EUR 10 400 thousand. The total liquidity ratio was 1.1. Current liabilities include deferred income of EUR 19 360 thousand, which are related to investments in public-use railway infrastructure financed by EU projects and from the state budget. Excluding deferred income relating to investments in public-use railway infrastructure financed by EU projects and from state budget funds, the liquidity ratio is 1.4. *The Company's* operating cash flows are positive. In light of the above circumstances, we believe that *the Company* is financially sound and capable of meeting its current liabilities.

The loan agreements concluded with banks lay down the financial covenants that *Latvijas dzelzceļš* must comply with during the term of the agreement. At 31 December 2021, 31 December 2022 and the beginning of 2023, none of the non-current borrowings had breach of covenants.

The following table provides information on the *Company's* financial liabilities by maturity, based on the contractual undiscounted amounts of the financial liabilities, including interest payments:

(EUR)

AT 31 DECEMBER 2022	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Borrowings from credit institutions	6 895 246	20 204 096	67 969 056	2 027 189	97 095 587

Other liabilities (including other borrowings, trade and other payables)	22 363 834	8 315 239	3 345 481	1 285 578	35 310 132
Total	**29 259 080**	**28 519 335**	**71 314 537**	**3 312 767**	**132 405 719**

(EUR)

31 DECEMBER 2021	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Borrowings from credit institutions	11 410 735	19 966 252	86 151 661	6 621 348	124 149 996
Other liabilities (including other borrowings, trade and other payables)	15 354 750	7 020 101	4 869 715	1 404 758	28 649 324
Total	**26 765 485**	**26 986 353**	**91 021 376**	**8 026 106**	**152 799 320**

32. FAIR VALUE CONSIDERATIONS

IFRS 13 establishes 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 Company* 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 Company* 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 Company'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.

All of *the Company's* financial instruments other than cash and cash equivalents qualify for Level 3 valuation techniques.

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 Company* has not changed significantly, the fair value of non-current liabilities approximates their carrying amount.

33. CAPITAL MANAGEMENT

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

The *Company's* objectives in relation to capital management are to ensure the *Company's* ability to continue as a going concern and to deliver the return on capital determined by the general meeting of shareholders. The Latvian State, as the sole owner of the *Company*'s capital, has the right to make decisions related to the increase, decrease, payment of dividends or allocation of the *Company*'s capital for the development of the *Company*.

For capital management purposes, *the Company* assesses the debt to total asset ratio. The *Company's* Financial risk management policy does not set a minimum or maximum levels for this indicator. The loan agreements with the banks provide for the financial ratios that *the Company* must meet during the term of the agreement, if the ratios are not met, letters are received from the banks when the annual report is prepared stating that the lender will not require the funds to be repaid over a shorter period. In preparing up its short- and long-term financial plans and budgets, the *Company* takes into account the financial covenants set by the banks regarding the debt to total asset ratio.

(EUR)

	AT 31.12.2022	AT 31.12.2021
Borrowings from credit institutions and other borrowings	90 556 751	120 615 523
Payables (including taxes)	59 091 302	53 755 710
Other liabilities	285 608 103	270 717 008
Total commitments	**435 256 156**	**445 088 241**
Equity	351 235 052	351 235 052
Total liabilities and equity	**786 491 208**	**796 323 293**
Debt to total capital ratio	55%	56%
Equity to total liabilities	81%	79%

34. FINANCIAL ASSETS AND LIABILITIES ANALYSIS BY CURRENCY

The table below shows the *Company's* financial instruments by currency:

AT 31 DECEMBER 2022	EUR	USD EUR	CHF AND OTHER CURRENCIES EUR	TOTAL EUR
Trade and other receivables, excluding advances	54 403 660	-	874 706	55 278 366
Cash and cash equivalents	58 067 216	3 657	945 467	59 016 340
Total financial assets	**112 470 876**	**3 657**	**1 820 173**	**114 294 706**
Borrowings from credit institutions	90 556 751	-	-	90 556 751
Trade and other payables, excluding advances	32 469 346	-	2 892 806	35 362 152
Total financial liabilities	**123 026 097**	**-**	**2 892 806**	**125 918 903**

At 31 DECEMBER 2021	EUR	USD EUR	CHF AND OTHER CURRENCIES EUR	TOTAL EUR
Trade and other receivables, excluding advances	74 909 955	-	2 134 425	77 044 380
Cash and cash equivalents	33 118 514	3 121	2 976 624	36 098 259
Total financial assets	**108 028 469**	**3 121**	**5 111 049**	**113 142 639**
Borrowings from credit institutions	120 615 523	-	-	120 615 523
Trade and other payables, excluding advances	26 948 656	4	1 473 023	28 421 683
Total financial liabilities	**147 564 179**	**4**	**1 473 023**	**149 037 206**

35. CAPITAL EXPENDITURE COMMITMENTS

The *Company* also plans to make capital expenditure in property, plant and equipment and intangible assets in the next financial year, the most significant of which are contracts concluded but not yet completed:

NAME OF THE COUNTERPARTY, SUBJECT OF THE CONTRACT	DATE OF CONTRACT	CONTRACT PERFORMANCE PERIOD	CONTRACT AMOUNT, EUR
BMGS - FIMA General Partnership: Construction of elevated platforms on the railway line Riga - Jelgava	29.07.2021	29.12.2023	6 283 759
BMGS - FIMA General Partnership: Construction of elevated platforms on the railway line Riga – Tukums II	29.07.2021	13.12.2023	5 394 040
BMGS - FIMA General Partnership: Construction of elevated construction of platforms on the railway line Riga - Krustpils	29.07.2021	31.12.2023	8 872 174
BMGS - FIMA General Partnership: Construction of elevated construction of platforms on the railway line Zemitani - Skulte (Kalngale-Skulte)	29.07.2021	29.12.2023	6 832 740
BMGS - FIMA General Partnership: Construction of elevated construction of platforms on the railway line Zemitani - Skulte (Zemitani-Vecaki Alfa)	30.07.2021	31.12.2023	6 929 832
Leonard Weiss OU: Installation of fencing and pedestrian crossings on railway infrastructure - construction	22.08.2022	31.10.2023	4 070 203
General partnership Fima Group: Introduction of unified information and video surveillance systems	12.05.2022	30.12.2023	5 222 999
PA BMGS-FiMA-ASTOM: Modernisation of railway infrastructure to increase train speed: construction	15.09.2022	31.12.2023	57 938 490

There were no material confirmed transactions for which contracts have not been concluded in the reporting year.

Property, plant and equipment under construction and the cost of unfinished construction objects

(EUR)

NAME OF UNFINISHED CONSTRUCTION OBJECTS	UNFINISHED CONSTRUCTION OBJECTS AT NBV AT 31.12.2022	BUDGETED COSTS IN 2023	YEAR WHEN EXPECTED TO BE PUT IN SERVICE
Riga railway section modernisation of the Sarkandaugava-Mangaļi-Ziemeļblāzma	6 061 535	10 801 359	2023
Introduction of digital radio communications	1 830 632	4 790 000	2024
Overhaul of railway stations, process buildings and external engineering networks, replacement of heating systems	1 123 576	1 724 000	2023
Replacement of long tracks with new ones	689 348	400 000	2023
IT technology development	529 413	985 000	2023
Modernising rail passenger infrastructure	432 470	42 315 430	2023
(CINEA) Replacement of the APOVS and establishment of the OPVS	338 844	1 891 049	2024
Other projects	751 783	67 711 118	2023-2024
Total	**11 757 601**	**130 617 956**	**x**

36. CONTINGENT TAX LIABILITIES

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

37. FUTURE LEASE REVENUE

Operating lease revenue in 2022 was EUR 3 316 729. Operating lease revenue is expected to be received at the level of 2022 over a period of 1 to 5 years.

38. NUMBER OF EMPLOYEES EMPLOYED IN THE COMPANY

The average number of people employed by the *Company* in 2022 was 4 037 (4 526 in 2021).

39. TRANSACTIONS WITH RELATED PARTIES

The Company has transactions with the Ministry of Transport (100% shareholder of *the Company*) and other commercial companies whose shares are owned by the State. The largest transactions are with AS "Pasažieru vilciens" (payment for the minimum access service package, electricity distribution and sale, rental of premises, purchase of subscriber tickets) for EUR 17 614 thousand (in 2021 – EUR 13 743 thousand) and VAS Latvenergo (purchase of electricity) for EUR 20 029 thousand (EUR 8 566 thousand in 2021). The transactions between them are related to the primary business of the respective parties.

Transactions with subsidiaries:

(EUR)

COUNTERPARTY	2022		2021	
	GOODS/ SERVICES		GOODS/SERVICES	
	SOLD/ PROVIDED	PURCHASED/ RECEIVED	SOLD/ PROVIDED	PURCHASED/ RECEIVED
SIA "LDZ CARGO"	71,789,865	8,088,983	68,706,151	8,413,016
SIA "LDZ ritošā sastāva serviss"	3 012 821	4 996 369	3 365 851	2 401 943
SIA "LDZ infrastruktūra"	122 914	402 605	538 359	1 441 074
SIA "LDZ apsardze"	481 610	4 079 650	475 552	4 392 824
AS "LatRailNet"	144 786	1 387	142 845	-
SIA "LDZ Loģistika"	355 666	26 110	300 652	60 750
SIA "Rīgas Vagonbūves uzņēmums "Baltija""	3 136	-	3 353	-
Total	**75 910 798**	**17 595 104**	**73 532 763**	**16 709 607**

Receivables from affiliated undertakings:

(EUR)

SUBSIDIARY	At 31.12.2022	At 31.12.2021
Short-term receivables		
SIA “LDZ CARGO”	3 354 366	4 688 124
SIA “LDZ ritošā sastāva serviss”	4 581 745	5 799 837
SIA “LDZ infrastruktūra”	-	16 197
SIA “LDZ apsardze”	42 152	33 462
AS “LatRailNet”	8 556	6 726
SIA “LDZ Loģistika”	29 211	27 800
SIA “Rīgas Vagonbūves uzņēmums “Baltija””	-	331
Total	**8 016 030**	**10 572 477**
of which arose in December of the reporting year	*3 797 059*	*5 055 985*
Long-term loans		
SIA “LDZ ritošā sastāva serviss”	17 357 499	23 826 503

Payables to affiliated undertakings:

(EUR)

SUBSIDIARY	At 31.12.2022	At 31.12.2021
SIA “LDZ CARGO”	1 391 752	1 347 045
SIA “LDZ apsardze”	536 875	811 391
SIA “LDZ ritošā sastāva serviss”	683 894	482 854
SIA “LDZ infrastruktūra”	-	80 089
SIA “LDZ Loģistika”	-	13 250
Total*	**2 612 521**	**2 734 629**
of which arose in December of the reporting year	*1 853 792*	*2 221 109*
*incl. lease liabilities to related companies	16 438	49 928
- *Non-current liabilities*	-	*16 438*
- *Short-term liabilities*	*16 438*	*33 490*

40. 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 *Company’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 *Company’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 *Company’s* operations in 2023 and beyond. The restrictions in force to date have not caused any significant immediate damage to *the Company*, but it is difficult to predict the possible impact of additional sanctions on the *Company’s* operations in the future. In view of the risks associated with the sanctions, the following measures have been taken:

1) In order to mitigate the risks associated with the current sanctions against financial institutions, we have identified all of *the Company’s* customers and business partners with current accounts with

financial institutions on 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 *Company* 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 Company*, 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 on strengthening the sanctions area *within the Company* through a number of technical improvements, as well as by creating a separate Sanctions Control Unit within the *Company* responsible for sanctions review and by strengthening the exchange of information on sanctions reviews within the Group.

The Company'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 *Company's* operations.

However, despite the difficult situation, the *Management* of *Latvijas dzelzceļš* is 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 primary 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 is 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 the *Company* to receive the financial stability payment are 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, the criteria for receiving the financial stability payments under the Multi-Annual Agreement were therefore met.

In order to present the total recognised financial stability charges in the financial statements, additional columns "2022 performance before the financial stability payments" and "2021 performance before the financial stability payments" were added to the *Company's* Statement of comprehensive income. These disclosures are not required under International Financial Reporting Standards (IFRS), but are provided as a supplementary indicator to meet the requirements of the Multi-Annual Agreement for disclosures in the financial statements about the *Company's* profit or loss for the reporting year.

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 Company*. 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*.

Despite this uncertainty, *Latvijas dzelzceļš's Management* believes that the going concern basis is applicable to the preparation of the financial statements which is justified by the approval of the strategy and action plan *of Latvijas dzelzceļš*, the implementation of the *Group*'s new business model and the review of organisational and technological processes that will result in future cost savings. The Company's primary task is to manage 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, therefore we believe that the fulfilment of the conditions of the Multi-Annual Agreement will not be delayed. Consequently, the financial statements have been prepared on a going concern basis, no adjustments have been made in them, including revaluation of assets and liabilities, which would be necessary if the going concern basis had not been applied.

41. EVENTS AFTER THE END OF THE REPORTING YEAR

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

Furthermore, it should be noted that the liquidation of SIA “LDZ infrastruktūra” 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 “Rīgas Vagonbūves Uzņēmums “Baltija””, and on the termination of direct decisive influence of limited liability company “LDZ ritošā sastāva serviss” and on shareholding in limited liability company “Rīgas Vagonbūves Uzņēmums “Baltija””* has not been yet registered in the Register of Enterprises because the ownership title to the transferred assets is in the process of being changed in the public registers. Consequently, the shareholding of VAS “Latvijas dzelzceļš” in SIA “LDZ infrastruktūra” is expected to be terminated 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 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

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

Independent Auditor's Report

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

Our opinion

In our opinion, the accompanying financial statements set out on pages 14 to 59 of the accompanying annual report give a true and fair view of the financial position of VAS "Latvijas dzelzceļš" (the "Company") as at 31 December 2022, and the Company's financial performance and 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 Company's financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2022,
- the statement of financial position as at 31 December 2022,
- the statement of changes in equity for the year ended 31 December 2022,
- the statement of cash flows for the year ended 31 December 2022, and
- the notes to the financial statements which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Reporting on Other Information Including the Management Report

Management is responsible for the other information. The other information comprises the Management Report (including Non-financial statement), as set out on pages 3 to 13 of the accompanying annual report, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
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.

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