



State joint stock company  
„Latvijas dzelzceļš”

Annual Report for 2021

## TABLE OF CONTENTS

MANAGEMENT REPORT .....	3
FINANCIAL STATEMENTS .....	12
STATEMENT OF COMPREHENSIVE INCOME .....	12
STATEMENT OF FINANCIAL POSITION .....	13
STATEMENT OF CHANGES IN EQUITY .....	15
STATEMENT OF CASH FLOWS .....	16
NOTES TO THE FINANCIAL STATEMENTS .....	18
INDEPENDENT AUDITOR 'S REPORT .....	57

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 2021

### 1. CHARACTERISTICS OF VAS "LATVIJAS DZELZCEĻŠ"

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

The main task of the *Company* is to operate a publicly usable railway infrastructure and provide safe, high-quality, and efficient railway services that serve the best interests of the Latvian State and its national economy. At 31 December 2021, the extended length of the rail network managed by *Latvijas dzelzceļš* as a public-use railway infrastructure operator was 3 147 km, including technologically integrated station and access roads and other infrastructure facilities.

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

*Latvijas dzelzceļš* provides the minimum set of public railway access services and access to public railway infrastructure connecting the railway infrastructure to service stations services, freight wagon handling, wagon maintenance, and inspection services, electricity distribution and trading services, rental services, information technology services, electronic communications services, principal services, as well as other services provided for in Section 12.1 of the Railway Law.

SIA "LDZ CARGO" is engaged in providing local and international rail freight transportation services, provides traction services, freight wagon use services, as well as organises international passenger transportation.

SIA "LDZ ritošā sastāva serviss" is engaged in providing repair services of locomotives and wagons, equipment as well as upgrading of locomotives, the lease services of track machines and equipment.

SIA "LDZ Loģistika" offers intermodal freight forwarding and logistics services, and deals with obtaining and organizing new freight transportation between European and Asian countries.

SIA "LDZ apsardze" offers security services for various objects, including real estate, critical infrastructure of railways and physical and technical security services for freight transport, as well as design, installation, and maintenance of security, fire safety, and video surveillance systems. Services are provided to both legal entities, including Group companies, and individuals.

SIA "LDZ infrastruktūra" provides track machinery and equipment rental services.

AS "LatRailNet" performs the essential functions of the railway infrastructure manager. This company makes decisions on the allocation of rail infrastructure capacity, the allocation of train paths, the system for calculating access charges, the setting, assessment, and collection of charges, and cooperates with other major players in international transportation.

SIA "LDZ ritošā sastāva serviss" subsidiary SIA "Rīgas Vagonbūves uzņēmums "Baltija"" was established with the aim to develop wagon construction in Latvia.

In order to improve corporate governance practices and develop an understanding of social responsibility in the *Group*, as well as to strengthen sustainable yet innovative thinking in the traditional rail sector, *Latvijas dzelzceļš* has been preparing a sustainability report in accordance with the internationally recognized guidelines of the Global Reporting Initiative (GRI standards) since 2016. The *Group's* companies also participate in the Sustainability Index assessment, organised each year by the Institute of Corporate Sustainability and Responsibility, to evaluate their sustainability performance. In assessing the performance of the *Group's* companies in the area of sustainable development and good corporate governance, the Sustainability Index experts in June 2021 awarded *Latvijas dzelzceļš* Gold rating, but their subsidiaries the following ratings: SIA "LDZ CARGO" - the highest or platinum category

of the Sustainability Index, SIA "LDZ ritošā sastāva serviss" and SIA "LDZ apsardze" – silver category, and SIA "LDZ Loģistika" – bronze category.

Since 2012, the *Company* has been included in the Ministry of Finance's In-Depth Cooperation Programme, which aims to promote closer and more efficient cooperation between taxpayers and the tax administration and reduce administrative burdens. *Latvijas dzelzceļš*, as a gold-level participant of the Advanced Cooperation Programme, receives the services and benefits provided for in the laws.

In 2021, the average number of employees was 4 526, which is by 796 less compared to 2020. The number of employees has decreased as the *Company* has taken targeted measures in 2021 to optimise the number of employees and costs through a review of functions and changes in the organizational structure.

In 2021, the average number of employees in the *Group* was 7 151, a decrease of 1 388 compared to 2020.

## 2. OPERATING PERFORMANCE

An essential performance indicator of *Latvijas dzelzceļš* is the number of kilometres travelled by trains, which forms the basis for the calculation of infrastructure charges and depreciation of the infrastructure.

In 2021, the number of train kilometres per year compared to 2020 has decreased by 2.6%, out of those freight transportation decreased by 7.1%, while passenger transportation increased by 1.1%. In 2021, the public use infrastructure of *Latvijas dzelzceļš* was used to run 4 638 thousand train kilometres for freight, and 6 037 thousand train kilometres for passenger transportation (incl. SIA "Gulbenes-Alūksnes bānītis" 48.4 thousand train kilometres).

The volume of cargo transportation in 2021 was 21 963 thousand tonnes, which is about 2 150 thousand tonnes or 8.9% less than in 2020 when 24 113 thousand tonnes were transported.

The largest share of freight traffic is import traffic, which accounts for 61.3% of total traffic. Its volume in 2021 was 13 473 thousand tonnes, which is a decrease of 17.4% compared to the same period of the previous year.

In 2021, the most significant part of transportation consists of the transportation of oil and oil products (28.7%), as well as grain, processed grain products, seeds, and fruits (20.3%). Mineral fertilizer transport accounts for 11.3% of total transport volume, wood and wood products for 8.1%, and coal transport for 9.3%. In 2021, 2 045 thousand tonnes of coal were transported, which is 49.4% less than last year. The most typical cargoes in the cargo category *Other cargoes* are chemical cargoes, transported in 2021 827 thousand tonnes, ferrous metals transported in 2021 521 thousand tonnes, and minerals transported in 2021 856 thousand tonnes.

In 2021, 11 194 thousand passengers were transported on broad-gauge railroads, a decrease of 13% compared to the previous year.

In 2021, *Latvijas dzelzceļš* continued to work on the priorities set in previous years – promoting operational efficiency by reviewing business, organizational and technological processes in order to increase the efficiency of the *Group's* operations and reduce costs, as well as ensure the *Group's* competitiveness and sustainability in the future.

In 2021, the *Company* reviewed its internal processes, changed its technological processes to reduce costs and increase efficiency, and complied with the Ministry of Transport's Regulation No. 01-02/16 "Procedures for monitoring the financial stability of the operator of the railroad infrastructure used by the public" of 05.10.2020.

As a result of various economic and geopolitical processes, the downward trends in cargo traffic that began in previous years continued in 2021, and further decline in cargo traffic was also caused by the Covid-19 coronavirus pandemic and regulatory measures aimed at combating the pandemic.

In 2021, the *Company's* net turnover was 157 711 thousand EUR, which is by 1 174 thousand EUR (0.8%) higher than in 2020.

The result from operating performance for 2021 was nil. *Latvijas dzelzceļš* has recognised the funds required to ensure the financial stability of the State Railway Infrastructure Manager in the amount of EUR 30 664 125 as income for the year 2021, in accordance with the guidelines of the International Financial Reporting Standards and will request the payment after approval of the *Company's* annual report.

In order for the *Company* to continue its economic activity, the Cabinet of Ministers, by Decree No. 979 "On the Allocation of Financial Resources from the State Budget Program 02.00.00. "Contingency Funds"" of 21 December 2021, allocated EUR 14 225 226 to the Ministry of Transport to ensure the reimbursement of specified expenses for the state public railroad infrastructure used for passenger transportation carried out under the public service contract.

As at 31 December 2021, the *Company's* current assets exceed its current liabilities by EUR 16 929 thousand. Current liabilities include deferred income of EUR 19 055 thousand related to the investment of European Union (EU) project funds and State budget funds in public rail infrastructure, which are gradually being amortised through revenue, there is therefore a low risk that financial resources will be required to cover these liabilities. The overall liquidity ratio is 1.22, but excluding short-term debt, future revenues related to EU projects, and state budget investments in public railroad infrastructure, it is 1.61. As of 31 December 2021 and the beginning of 2022 there were no covenant breaches for any non-current borrowing.

The debt-to-asset ratio (total debt-to-asset ratio) has decreased compared to 2020. As at 31 December 2021 this ratio was 0.56 (previously - 0.58). The main criterion for assessing the amount of liabilities is the level of financial risk. The risk is affected by the sources and types of asset financing: the higher the proportion of debt in the balance sheet, the higher is the financial risk. Liabilities include deferred income related to EU projects and state budget investments in public railroad infrastructure. Excluding deferred income from liabilities, the share of liabilities in the balance sheet is 0.22. When evaluating the financial indicators, it should be taken into account that the co-financing received from the European Community and the State for EU investment projects is reported under the liabilities in the balance sheet as "Prepaid expenses" and amortised to "Other income", while the amortisation of the assets is reported under the "Depreciation, amortisation and impairment losses" line.

Despite the decline in freight traffic, the *Company* has continued to ensure the quality of infrastructure and services offered, as well as an adequate level of safety. The total amount of investments of *Latvijas dzelzceļš* in 2021 is EUR 12 041 thousand, including:

- EUR 8 251 thousand,
  - including, capital repairs of EUR 7 203 thousand,
  - renewal of IT systems of EUR 595 thousand,
  - in the reporting period, technological equipment for the repair and maintenance of tracks as well as equipment for the further development of information systems and communication tools and intangible assets were acquired in the amount of EUR 453 thousand,
- EUR 3 790 thousand in the development of infrastructure,
  - of which in the launching of innovative technologies EUR 1 191 thousand,
  - other development of EUR 2 599 thousand.

### 3. OBJECTIVES AND FUTURE DEVELOPMENT

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

With the Cabinet of Ministers Decree No. 421 of 16.06.2021, the general strategic goal of *Latvijas dzelzceļš* is approved with the following wording: "To ensure efficient, safe and sustainable management of railroad infrastructure and competitive offer in the areas of logistics, repair, and maintenance of rolling stocks, security services for strategically important objects and promotion of environmentally friendly railroad transport".

In 2021 the "VAS *Latvijas dzelzceļš* Concept for Infrastructure Development 2021 - 2035" was developed, which was approved by the Board Decision No. VL -9/95 of 1 March 2021 and acknowledged by the Council Decision No. 1.2.13-13 of 18 March 2021. The Concept contains the current description of the infrastructure and related aspects of the *Company's* operation and outlines the vision of the strategic development of *Latvijas dzelzceļš* and its main directions. Medium-term operational strategy of *Latvijas dzelzceļš* contains projects aimed at the development and modernization of infrastructure, and other documentation.

Considering the development and competitiveness of *Latvijas dzelzceļš* in the future, in addition to regular investments to maintain the level of quality and safety of the infrastructure, within the financial constraints, work will continue on the implementation of the project "Modernisation of the

Sarkandaugava-Mangalī-Ziemeļblāzma section" co-financed by the Cohesion Fund, for the construction of which the contract was concluded in 2019. As part of the project, it is planned to increase the throughput capacity by constructing the second tracks in the section Mangalī - Ziemeļblāzma, to modernise the signalling system in accordance with modern technologies, as well as to increase safety by constructing two-level pedestrian crossings. In 2021 planning work was completed as part of the project and construction work began in individual sections.

In 2021, the project "Modernisation of Railroad Infrastructure for Passenger Transport", co-financed by the Cohesion Fund, was launched, which provides for the construction of elevated platforms at 48 stations in order to increase the safety of passengers and trains, the quality, and comfort of services for passengers, and reduce the environmental impact. In 2021, contracts for the execution of construction works were concluded. Design work has begun as part of the project.

At the same time, preparations are underway for two other projects to be co-financed by the Cohesion Fund:

- "Installation of fences and crosswalks in railroad infrastructure objects";
- "Modernisation of railway infrastructure to increase the speed of trains".

Procurement for design and construction has been carried out for both projects and work is underway to prepare project applications for submission to the Central Finance and Contracting Agency to receive co-financing from the Cohesion Fund.

## 4. RESEARCH AND DEVELOPMENT ACTIVITIES

*Latvijas dzelzceļš* is aware of the challenges of the coming years in attracting specialists and is not only developing the advanced training courses offered by the *Company's* Training Centre but has also introduced several new specialisations in the fields of electrical railroad systems and railroad telecommunications in recent years in cooperation with Riga Technical University. The launch of these programs will allow not only to develop the technological capacity of the *Company* and the *Group*, but also will ensure the availability of specialists necessary for the maintenance of the future electrified railroad infrastructure.

In 2021, research works in the amount of EUR 36 300 were performed, of which expenses for internal research conducted in the *Company* amounted to EUR 25 125, expenses for research commissioned by other institutions, companies and organizations – EUR 11 175. In 2020, research work in the amount of EUR 114 183 was performed, of which internal research amounted to EUR 41 544.

In 2021, EUR 15 075 were spent on development activity, EUR 5 025 on the fundamental research and EUR 5 025 on applied research. In 2020, EUR 24 926 were spent on development activity, EUR 8 309 on fundamental research, and EUR 8 309 on applied research.

## 5. NON-FINANCIAL STATEMENT

*Latvijas dzelzceļš* is one of the largest employers in Latvia, whose industry and scale create a situation in which the *Company* directly affects a large number of people throughout Latvia. First of all, they are more than 4 000 employees of VAS "Latvijas dzelzceļš" who work for the *Company* and, thus, are able to support their families, pay taxes and make other investments in the national economy. In addition to the large number of employees, the operation of the *Latvijas dzelzceļš* affects everyone who uses railway transport, as well as those whose place of residence is close to the railway infrastructure.

Railway operations are also closely linked to environmental factors and their impact on the quality of life of the population. One of the current issues is the noise generated by rail traffic, especially freight traffic, and its negative effects on the health of people living nearby. In order to reduce the impact of noise and vibration, the *Latvijas dzelzceļš* Action Plan for Noise Reduction by 2023 has been developed and is being implemented, which defines the tasks and objectives for noise reduction for railway lines with traffic intensity of more than 30,000 trains per year.

*Latvijas dzelzceļš* is the public railway infrastructure manager, whose duty is not only to take care of the quality, safety and development of the railway, but also to preserve the historical evidence of the railways, which tells about the history of the railway industry in Latvia from its beginnings. The main custodian of the railway industry heritage is the Latvian Railway History Museum.

*Latvijas dzelzceļš* always observes the principles of equality in relations with employees, i.e. the employment legal relations give no preference to any race, colour, gender, age, religious, political or other belief or national or social origin, property or family status, sexual orientation or other circumstances.

In December 2021 *Latvijas dzelzceļš* employed 1 441 women or 34.9% of the total number of employees and 2 684 men or 65.1% of the total number of employees. The relatively large number of women employed by the *Company* in a sector that has traditionally been highly masculine confirms that the *Company* does not discriminate against employees on the basis of their gender, thus reducing the stereotype of the railway as a male-only sector.

Employees of *Latvijas dzelzceļš* are not discriminated on the basis of their nationality. Although the *Company* does not list a specific number of employees of each nationality, the *Company* employs a large number of employees of many nationalities. The largest number are employees of Latvian and Russian nationalities, followed by representatives of Belarusian, Polish, Ukrainian and Lithuanian nationalities. Nationalities such as Jews, Georgians, Moldovans, Tatars, Estonians, Udmurts, Germans are also represented.

The *Latvijas dzelzceļš Group* has had a Remuneration and Motivation Policy in force since 2013, which is also binding for the *Group's* parent company, *Latvijas dzelzceļš*. This policy defines job classifications and specific criteria for the salary amount: work difficulty, intensity, complexity, education, previous experience, performance and qualifications. The principle of fairness is observed in determining the remuneration: equal remuneration for the same work or work of equal value is determined both within one *Group* company and in the *Group* as a whole.

The *Group's* corporate values, as well as the principles of professional conduct and ethics, ensuring that they are directed against corruption, conflicts of interest, illegal use of inside information and any other illegal and unethical actions, are defined in the *Latvijas dzelzceļš Group's* Code of Ethics.

The *Group's* Code of Ethics summarizes the basic principles of good business practice and professional ethics and conduct of employees of the *Group's* parent company *Latvijas dzelzceļš* and its dependent limited liability companies. The new version of the *Group's* Code of Ethics was developed in 2021.

In order to determine how employees should deal with the suppliers, business partners, as well as in connection with the organization of business trips and accepting gifts in case of possible corruption cases, the Fraud Prevention Policy was approved in 2016, which was approved in a new version in 2019. The Security Control Division of *Latvijas dzelzceļš* Safety Directorate is responsible for the implementation of the policy, and this document is binding on all employees of *Latvijas dzelzceļš* and its subsidiaries. The Fraud Prevention Policy implemented by the *Group* is closely related to the state regulatory framework, i.e. Cabinet of Ministers Regulation No. 630 "Regulations on the Basic Requirements of the Internal Control System for the Prevention of the Risk of Corruption and Conflict of Interest in an Institution of a Public Person" and the "Alarm-Raising Law".

One of the strategic objectives of VAS *Latvijas dzelzceļš* is to reduce the number of injuries and deaths in train collisions. In addition to improving infrastructure safety, one option is to inform and educate the public about safe behaviour in the vicinity of railway infrastructure and track crossings.

Every year, *Latvijas dzelzceļš* participates in the activities of the International Safe Railway Crossing Day with a safety campaign aimed at informing and educating the public about safety in the vicinity of the railway. *Latvijas dzelzceļš* Safety Campaign implemented in 2021 had been noticed by 83% of the surveyed Latvians, which is more than in all previous campaigns in 5 years.

VAS *Latvijas dzelzceļš* medium-term strategy until 2025 sets the following non-financial targets for 2021:

STRATEGIC DIRECTIONS	PERFORMANCE INDICATORS	2021 PLAN	2021 ACTUAL
Governance	Operating costs of railway infrastructure per km of track, thous. EUR	61,2	57,4
	Extended length of main tracks, km	2 216,0	2 213,1
	Number of serious accidents per million km, number	1,2	1,0
Mobility	Average speed of passenger section, km/h	54	55,4
	Share of rail passenger transport in the total volume of public transport, %	8,3%	8,8%
Commercial activity	LDZ CARGO market share in the Baltics, %	23,8%	23,8%
	Freight transported using railway infrastructure network, million tons	25,5	22,0
Sustainability and human capital	Sustainability index, level	Gold	Gold
	Employee satisfaction rating, %*	70,0%	-

\*In 2021 the employee satisfaction assessments were not performed.

The non-financial objectives related to cargo transportation volumes have not been met, as due to various economic, geopolitical processes, the declining trends in freight traffic started in previous years have continued in 2021. In addition, the freight traffic was negatively affected by the situation caused by the coronavirus Covid-19 pandemic and the fulfilment of regulatory requirements to limit it.

Information on the development of *Latvijas dzelzceļš*, its operating results and financial position is provided in the previous sections of the Management Report and in the notes to the annual report.

## 6. INFORMATION ON THE MAIN RISKS ASSOCIATED WITH CORPORATE SOCIAL RESPONSIBILITY

### Road safety risks

VAS *Latvijas dzelzceļš*, as a public railroad infrastructure manager, is responsible for operating the control and safety systems of the railroad infrastructure and actively manages the risks related to the safety of railroad transport. VAS *Latvijas dzelzceļš* has established a safety management system that is integrated into its management and core business processes. This includes the procedures necessary to meet the specific requirements for the safe development, maintenance and operation of the railroad infrastructure, including the maintenance and operation of the traffic control and signalling system and management of staff competencies.

In order to monitor the traffic safety situation in accordance with the Traffic Safety Policy of *Latvijas dzelzceļš Group*, an internal traffic safety monitoring system has been implemented, which is a periodic package of preventive measures. The main tools of the system are monitoring of the state of road safety, inspections of railroad infrastructure, various inspections, technical audits, technical training of railroad specialists and road safety briefings.

According to the risk management policy of the *Latvijas dzelzceļš Group*, road safety is identified as a priority risk in the Group's decision-making, regardless of the individual risk assessments and control measures taken, and risk mitigation and control measures are implemented.

### Environmental risks

*Latvijas dzelzceļš Group* companies manage risks to ensure compliance with the requirements of legislation adopted at the EU and national levels, including those related to climate protection and the environment, as well as integrating the requirements into operations of *Latvijas Dzelzceļš* and ensuring global climate requirements. The existing risk control includes the implementation of external regulations into the environmental and energy management policy of the *Latvijas dzelzceļš Group* and the resulting regulations, the environmental, and energy management programme:

- the *Group* has implemented a certified energy management system (continuous analysis of key areas of energy consumption) and noise management (strategic noise maps and a noise reduction action plan have been developed);
- In 2022, it is planned to certify the environmental management system in accordance with the requirements of the standard ISO 14001: 2015, which will be integrated with the certified energy management system;
- Environmental monitoring (soil and groundwater, wastewater and rainwater, noise levels and pollutant emissions to air) and inspection, exploration, and remediation of sites contaminated with oil products are carried out regularly;
- Periodic employee training is conducted to expand and test knowledge and to keep employees informed of the *Group's* current environmental and energy management issues;
- Civil defence and disaster prevention drills are organised jointly with other public services.

### **Work environment risks**

To ensure the core business of the *Group's* companies, work takes place near to the rail roads, i.e., in high-risk conditions, and each worker must strictly comply with all occupational safety requirements, including the wearing of high-visibility protective clothing and constant vigilance during the movement of rolling stock in the designated work area. Risk management is ensured in accordance with the Labour Protection Policy of the *Latvijas dzelzceļš Group* and the *Group* companies maintain and improve labour protection systems, and a regular assessment of work environment risks is performed in accordance with laws and regulations.

In ensuring occupational health and safety, priority is given to preventive measures to avoid (prevent) hazards to the work environment that endanger the safety of workers and harm their health. In practice, when developing labour protection instructions, the "Sample of the Content and Structure of Labour Protection Instructions" (Annex 2 to Cabinet Regulation No. 749 of 10 August 2010) is used, which includes a safe work performance process when starting work, performing work, and finishing work, and labour protection requirements for emergencies.

### **Risks of corruption and conflict of interest**

*Latvijas dzelzceļš Group* companies observe the principles of corruption prevention in their daily work. The *Latvijas dzelzceļš Group* applies an anti-fraud policy that creates an internal control environment to ensure the prevention of fraud, corruption, and conflicts of interest, the functioning of the warning system and compliance with the law in day-to-day operations.

The Code of Ethics of *Latvijas dzelzceļš Group* establishes the basic principles of professional ethics and conduct of employees. By signing the agreement, the *Group's* cooperation partners confirm that they have read the Basic Principles of Business Ethics of the *Group's* Operational Partners published on the *Group's* website [www.ldz.lv](http://www.ldz.lv), comply with them and undertake to continue to strictly follow them and ensure their compliance. Employees of the cooperation partners and subcontractors involved in the execution of the contract are also subject to compliance with these regulations.

### **Compliance risks**

*Latvijas dzelzceļš Group* companies manage risks and take necessary measures to ensure compliance. The *Group* pursues a uniform legal security policy with the aim of ensuring consistent and correct application of the applicable legal standards. The core business of the *Group's* companies is organized considering the requirements of external legislation, including the regulation of sanctions and their amendments. For risk management, processes are reviewed, and existing internal controls are updated in accordance with the changes.

### **Reputation risks**

*Latvijas dzelzceļš Group* companies take measures to prevent and reduce reputational risks that may arise both from intended or unintended external events and from internal communication errors or inappropriate actions by employees. To manage the risk in daily processes, potential communication issues and communication risks are identified in a timely manner, the media, public environment and public opinion are constantly monitored, communication about the *Group's* activities is ensured, and public awareness and understanding of the *Group's* activities and current events are promoted.

VAS *Latvijas dzelzceļš* Corporate Governance Report for *Latvijas dzelzceļš Group* in 2021 will be provided in the VAS *Latvijas dzelzceļš* Consolidated Annual Report for 2021.

## 7. BRANCHES AND REPRESENTATIVE OFFICES ABROAD

Since 2012, the representation office of *Latvian dzelzceļš* has been operating in the Russian capital Moscow.

Since 2017, the representative office of *Latvian dzelzceļš* has been operating in Belarusian capital Minsk.

*The Company* has no foreign branches.

## 8. EVENTS AFTER THE DATE OF PREPARATION OF THE ANNUAL REPORT FOR 2021 AND GOING CONCERN CONSIDERATIONS

Freight transportation trends in 2020 and 2021, as well as current events that could potentially shake the global and regional economies, including the Covid-19 coronavirus pandemic, suggest that freight transport volumes will not improve significantly.

However, despite the difficult situation, the management of *Latvijas dzelzceļš* concludes that the going concern principle is applicable supported by the implementation of the new business model of the *Group*, the implementation of the crisis plan and the review of organizational and technological processes, which already resulted and will result in the future in cost reduction and receipt of the necessary state funds under the Multi-Annual Agreement "On planning and financing the maintenance and development of the public-use railroad infrastructure operation by VAS *Latvijas dzelzceļš*" concluded between VAS *Latvijas dzelzceļš* and the Ministry of Transport. In addition, work on implementing the *Group's* new business model and *Company* medium-term operating strategy until 2025 will continue in 2022.

The main task of the *Company* is to ensure the management of the state railroad infrastructure and safe, high-quality and efficient railroad and logistics services in the interests of the Latvian State and the national economy. To ensure this task, a Multi-Annual Agreement was concluded with the Ministry of Transport, which provides for the procedure to ensure financial stability.

The funds required to ensure financial stability in 2021 have been recognised as revenue in accordance with the recognition principles set out in IAS 20 *Government Grants*. These principles provide for the recognition of a government grant when there is a reasonable assurance that the conditions attached to the grant will be complied with. In addition, grants to cover costs are recognized in the period in which the costs are incurred, provided there is a reasonable assurance that the grant will be received in the future.

The criteria for the *Company's* receipt of a financial stability payment is its failure to meet the conditions for financial stability set forth in the Multi-Annual Agreement. As the *Company* did not meet the financial stability condition in 2021, the criteria for receiving the financial stability payments provided for in the Multi-Annual Agreement were met accordingly.

To ensure clear presentation of the total recognised financial stability payments in the financial statements, the columns "Performance for 2021 before financial stability payments" and "Performance for 2020 before financial stability payments" were added to the *Company's* Statement of Comprehensive income. Disclosure of this information is not required by International Financial Reporting Standards (IFRS) and it is provided as an additional indicator to satisfy the disclosure requirements set forth in the Multi-Annual Agreement for presentation of the *Company's* Statement of Comprehensive income within the financial statements.

Although there is certainty about receiving financial resources, there is uncertainty regarding the time required to receive these additional financial resources for the *Company*. This uncertainty applies both to the means to compensate the costs of maintaining and renovating the railway infrastructure in full for the provision of public transport services throughout 2022 in accordance with the requirements of the Multi-Annual Agreement and to the means to ensure the financial stability of *Latvijas dzelzceļš* according to Multi-Annual Agreement.

In addition, it should be noted that according to the 12 January 2022 Cabinet of Ministers Regulation No. 13 "On termination of decisive influence and shareholding of VAS "Latvijas dzelzceļš" in the limited liability company "LDZ infrastruktūra" and termination of indirect decisive influence of the state joint-stock company "Latvijas dzelzceļš" in the limited liability company "Rīgas Vagonbūves uzņēmums "Baltija"" and termination of shareholding and decisive influence of limited liability company "LDZ ritošā sastāva serviss" in the limited liability company "Rīgas Vagonbūves uzņēmums "Baltija""", it

is planned to terminate the shareholding of VAS "Latvijas dzelzceļš" in "LDZ infrastruktūra" by liquidating it, and as a result of reorganization, merge SIA "Rīgas Vagonbūves Uzņēmums "Baltija"" to SIA "LDZ ritošā sastāva serviss".

On 24 February 2022, the war was escalated in Ukraine, resulting in extensive economic and political sanctions against Russia and Belarus. These events are non-adjusting events after the end of the reporting year.

Given the *Company's* cooperation with Russian and Belarusian partners, as well as the specifics of its operations, these events will undoubtedly have an impact on the *Company's* operations in 2022 and beyond. The restrictions in force so far do not cause significant immediate losses to the *Company* and do not endanger the *Company's* ability to continue as going concern:

1) In order to mitigate the risks associated with the current sanctions against financial institutions, we have identified all the *Company's* customers and partners with current accounts in the financial institutions included in the sanctions lists, contacting these customers and requesting to change the settlement bank, otherwise terminating cooperation.

2) Assessing the risks associated with the updated lists of sectoral sanctions, the *Company* strengthened its cargo inspection procedures by assessing the types of cargo and their compliance with the established sectoral sanctions.

3) All persons included in the sanctions lists are reflected in the information system (IS) Sanctions maintained by the *Company*, which ensures daily automatic verification of the compliance of all customers and business partners with the lists of authorized persons. IS Sanctions lists are updated daily by automatically contacting the official websites that maintain information about the sanctions of the Republic of Latvia, the European Union, the UN and OFAC.

The *Company's* management is aware of the uncertainties related to the further development of the situation and will continue to monitor the development of events on a daily basis, as well as their potential impact on the *Company's* operations.

## 9. FINANCIAL PERFORMANCE

Profit or loss for the reporting period – the result is nil due to the fact that *Latvijas dzelzceļš* has recognised the State funding provided by regulations for ensuring the financial stability of the operator of the public use railroad infrastructure.

## 10. STATEMENT OF THE RESPONSIBILITY OF THE BOARD

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

VAS *Latvijas dzelzceļš* financial statements on pages from 12 to 56 are prepared on the basis of accounting records and supporting documents and give a true view of the *Company's* financial position as at 31 December 2021, its performance and cash flows for 2021.

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

The *Management* of the *Company* is responsible for ensuring the appropriate accounting system, maintaining the *Company's* assets, as well as for the detection and prevention of fraud and other violations committed in the *Company*. The Management is responsible for compliance with the statutory requirements of the Republic of Latvia.

Riga, the date can be seen on the time stamp.

Chairman of the Board

M.Kleinbergs

Member of the Board

V.Balode-Andrūsa

Member of the Board

R.Pļavnieks

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# FINANCIAL STATEMENTS

## STATEMENT OF COMPREHENSIVE INCOME FOR 2021

(EUR)

	NOTES	2021 RESULTS BEFORE FINANCIAL STABILITY PAYMENTS*	2021	2020 RESULTS BEFORE FINANCIAL STABILITY PAYMENTS*	2020
Revenue	4	127 046 379	157 710 504	134 021 827	156 536 122
Other income	5	21 996 547	21 996 547	26 982 254	26 982 254
<b>Total operating income</b>		<b>149 042 926</b>	<b>179 707 051</b>	<b>161 004 081</b>	<b>183 518 376</b>
Cost of goods, materials and services sold	6	(39 513 080)	(39 513 080)	(44 581 973)	(44 581 973)
Personnel expenses	7	(87 930 262)	(87 930 262)	(94 311 415)	(94 311 415)
Depreciation, amortization and impairment	8	(50 099 213)	(50 099 213)	(67 832 906)	(67 832 906)
Other expenses	9	(864 069)	(864 069)	(1 860 624)	(1 860 624)
<b>Total operating expenses</b>		<b>(178 406 624)</b>	<b>(178 406 624)</b>	<b>(208 586 918)</b>	<b>(208 586 918)</b>
<b>Operating profit/ (loss)</b>		<b>(29 363 698)</b>	<b>1 300 427</b>	<b>(47 582 837)</b>	<b>(25 068 542)</b>
Income from equity investments	10, 11	145 070	145 070	19 180 710	19 180 710
<i>Income from investments in subsidiaries and associates</i>		<i>144 231</i>	<i>144 231</i>	<i>19 179 528</i>	<i>19 179 528</i>
<i>Income from investments in other companies</i>		<i>839</i>	<i>839</i>	<i>1 182</i>	<i>1 182</i>
Gain from reversal of previously recognised impairment of investments		-	-	7 561 000	7 561 000
Financial income	12	423 434	423 434	557 974	557 974
Financial expenses	12	(1 868 931)	(1 868 931)	(2 231 142)	(2 231 142)
<b>Profit/ (loss) before corporate income tax</b>		<b>(30 664 125)</b>	<b>-</b>	<b>(22 514 295)</b>	<b>-</b>
<b>Profit/ (loss) for the reporting year</b>		<b>(30 664 125)</b>	<b>-</b>	<b>(22 514 295)</b>	<b>-</b>
<b>Profit/ (loss) attributable to shareholders and comprehensive income for the reporting year</b>		<b>(30 664 125)</b>	<b>-</b>	<b>(22 514 295)</b>	<b>-</b>

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

The Notes set out on pages 18 to 56 form an integral part of these financial statements.

Riga, see the date on the timestamp

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Member of the Board

R.Plavnieks

The annual report was prepared by the Finance Department  
of AS *Latvijas dzelzceļš*:  
Finance Director

R.Razums

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## STATEMENT OF FINANCIAL POSITION

### AT 31 DECEMBER 2021

(EUR)			
ASSETS	NOTES	31.12.2021	31.12.2020
<b>Long-term investments</b>			
Property, plant and equipment	13	536 042 565	571 878 389
Right-of-use assets	14	7 497 666	10 140 886
Intangible assets	16	962 588	1 127 980
Advance payments for property, plant and equipment		10 491 828	5 487 499
Investments in subsidiaries	17, 18	121 982 718	121 982 718
Loans to affiliated companies	20	23 826 503	38 811 049
Other securities and investments	21	84 108	84 108
<b>Total long-term investments</b>		<b>700 887 976</b>	<b>749 512 629</b>
<b>Current assets</b>			
Inventories	22	4 844 425	6 932 327
Trade and other receivables	23	3 752 736	3 246 672
Loans to affiliated companies	20	5 516 492	4 622 731
Receivables due from affiliated companies	38	5 055 985	6 576 576
Accrued income		40 167 420	9 503 295
Cash and cash equivalents	24	36 098 259	59 301 731
<b>Total current assets</b>		<b>95 435 317</b>	<b>90 183 332</b>
<b>Total assets</b>		<b>796 323 293</b>	<b>839 695 961</b>

(continued on the next page)

## STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2021 (CONTINUED)

		(EUR)	
EQUITY AND LIABILITIES	NOTES	31.12.2021	31.12.2020
<b>Equity and liabilities</b>			
<b>Share capital</b>			
Share capital	25	289 142 391	289 142 391
Reserves and retained earnings		62 092 661	62 092 661
<b>Total equity</b>		<b>351 235 052</b>	<b>351 235 052</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Provisions	26	250 857	245 409
Borrowings from credit institutions	27	90 556 751	120 615 523
Trade payables		930 116	828 087
Taxes and compulsory state social insurance contributions	29	19 437 751	19 422 967
Lease liabilities		5 197 208	7 664 419
Deferred income	28	250 209 081	261 328 621
<b>Total non-current liabilities</b>		<b>366 581 764</b>	<b>410 105 026</b>
<b>Current liabilities</b>			
Borrowings from credit institutions	27	30 058 772	38 212 777
Provisions	26	776 696	3 299
Trade payables and other liabilities		17 265 928	14 923 707
Payables to affiliated companies	38	2 684 701	2 137 377
Taxes and compulsory state social insurance contributions	29	5 849 734	760 059
Lease liabilities		2 390 272	2 562 751
Deferred income	28	19 480 374	19 755 913
<b>Total current liabilities</b>		<b>78 506 477</b>	<b>78 355 883</b>
<b>Total liabilities</b>		<b>445 088 241</b>	<b>488 460 909</b>
<b>Total equity and liabilities</b>		<b>796 323 293</b>	<b>839 695 961</b>

The Notes set out on pages 18 to 56 form an integral part of these financial statements.

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## STATEMENT OF CHANGES IN EQUITY

	SHARE CAPITAL	RESERVES	RETAINED EARNINGS	(EUR) EQUITY TOTAL
<b>2020</b>				
<b>At 01.01.2020</b>	<b>256 720 375</b>	<b>34 294 995</b>	<b>27 823 610</b>	<b>318 838 980</b>
Profit transferred to reserves	-	4 184 250	(4 184 250)	-
Payments for the use of state capital from the profit of 2019	-	-	(25 944)	(25 944)
Increase in share capital	32 422 016	-	-	32 422 016
<b>At 31.12.2020</b>	<b>289 142 391</b>	<b>38 479 245</b>	<b>23 613 416</b>	<b>351 235 052</b>
<b>2021</b>				
<b>At 01.01.2021</b>	<b>289 142 391</b>	<b>38 479 245</b>	<b>23 613 416</b>	<b>351 235 052</b>
Profit/ (loss) for the year	-	-	-	-
<b>At 31.12.2021</b>	<b>289 142 391</b>	<b>38 479 245</b>	<b>23 613 416</b>	<b>351 235 052</b>

The Notes set out on pages 18 to 56 form an integral part of these financial statements.

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## STATEMENT OF CASH FLOWS FOR 2021 (USING THE INDIRECT METHOD)

			(EUR)
	NOTES	2021	2020
<b>Cash flow from operating activity</b>			
<b>Profit before corporate income tax</b>		-	-
<b>Adjustments:</b>			
Depreciation of property, plant and equipment and other impairment adjustments		32 124 655	48 332 129
Amortisation of intangible assets and other impairment adjustments	16	422 414	537 968
Foreign exchange (gains) or losses	5; 9	(167 377)	14 460
Income from investments in related companies and other companies	10; 11	(145 070)	(19 180 710)
Gain from the reversal of impairment of investments		-	(7 561 000)
Other interest and similar income	12	(423 434)	(557 974)
Interest and similar expenses	12	1 868 931	2 231 142
<b>Profit before working capital adjustments</b>		<b>33 680 119</b>	<b>23 816 015</b>
<b>Adjustments:</b>			
Increase in deferred expenses and receivables		(29 986 754)	(9 334 169)
Decrease in inventories		1 591 697	4 835 142
Increase in trade and other payables		7 191 856	9 637 198
<b>Gross cash flow from operating activity</b>		<b>12 476 918</b>	<b>28 954 186</b>
Interest paid		(1 895 422)	(2 237 474)
<b>Net cash flow from operating activity</b>		<b>10 581 496</b>	<b>26 716 712</b>
<b>Cash flow from investing activity</b>			
Acquisition of property, plant and equipment and intangible assets		(15 048 454)	(17 818 753)
Proceeds from the sale of property, plant and equipment and intangible assets		796 237	1 432 564
Subsidies or grants received	28	6 178 653	4 714 890
Loans issued	20	-	(512 512)
Proceeds from the repayment of loans	20	14 426 025	4 323 745
Interest received		429 518	551 816
Dividends received	10;11	145 070	19 180 710
<b>Net cash flow from investing activity</b>		<b>6 927 049</b>	<b>11 872 460</b>

(continued on the next page)

## STATEMENT OF CASH FLOWS FOR 2021 (CONTINUED)

			(EUR)
	NOTES	2021	2020
<b>Cash flow from financing activity</b>			
Increase in share capital		-	32 422 016
Borrowings received	27	10 540 322	10 000 647
Borrowings repaid	27	(48 753 099)	(40 359 705)
Lease payments		(2 660 638)	(2 751 911)
Dividends paid		-	(25 944)
<b>Net cash flow from financing activity</b>		<b>(40 873 415)</b>	<b>(714 897)</b>
<b>Foreign exchange gain / (loss)</b>		<b>161 398</b>	<b>(801)</b>
<b>Change of cash and cash equivalents during the reporting year</b>		<b>(23 203 472)</b>	<b>37 873 474</b>
<b>Cash and cash equivalents at the beginning of the reporting year</b>		<b>59 301 731</b>	<b>21 428 257</b>
<b>Cash and cash equivalents at the end of the reporting year</b>	<b>27</b>	<b>36 098 259</b>	<b>59 301 731</b>

The accompanying notes set out on pages 18 to 56 form an integral part of these financial statements.

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Finance Director

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## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION ON THE COMPANY

Name of the Company	LATVIJAS DZELZCEĻŠ
Legal status of the Company	State joint stock company
Address	Gogoļa iela 3, Rīga, LV-1547
Uniform registration number	40003032065
Registration date in the Register of Enterprises	01.10.1991
Registration date in the Commercial Register	10.09.2004
Registration date	Rīga
Date of issue of the registration certificate of the Merchant	10.09.2014
Primary business (NACE 2. red.)	42.12 Construction of railways and underground railways 52.21 Service activities incidental to land
Shareholder	The Republic of Latvia (100%)
Holder of capital shares	The Ministry of Transport of the Republic of Latvia Gogoļa iela 3, Rīga, LV-1743
Supervisory body	Council of the Company
Council	Jānis LANGE, chairman of the Council Andris LIEPINŠ, deputy chairman of the Council from 11.11.2021, member of the Council Andris MALDUPS, member of the Council Reinis CEPLIS, member of the Council Juris KAĻENUKS, member of the Council from 02.02.2022 Aigars LAIZĀNS, member of the Council until 01.02.2021
Board	Māris KLEINBERGS, chairman of the Board Vita BALODE-ANDRŪSA, member of the Board Rinalds PĻAVNIEKS, member of the Board from 01.08.2021 Ēriks ŠMUKSTS, member of the Board until 14.01.2022
Auditor's name, address and the sworn auditor in charge	SIA PricewaterhouseCoopers Uniform reg. No. 40003142793 LZRA commercial company licence No.5 Kr.Valdemāra iela 21-21 Rīga, LV-1010 Latvia Sworn auditor in charge Ilandra Lejiņa Certificate No. 168
Reporting year	1 January 2021 - 31 December 2021

## 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* (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 2021 to 31 December 2021. The financial statements are approved by the shareholders' meeting convened by the Board of the *Latvijas dzelzceļš* after receiving the auditor's opinion and the report of the Council.

### 2.1. ACCOUNTING AND MEASUREMENT PRINCIPLES

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

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

During the reporting period, the management of *Latvijas dzelzceļš* changed its accounting policy for presentation of expenses in the income statement. Previously, the income statement was presented by function of expenses, whereas from this reporting period it is presented by nature of expenses. The justification for changing the presentation is based on several factors:

- Classifying expenses by function makes it difficult for the management of *Latvijas dzelzceļš* to compare results with the *Company's* budgeting and planning documents, which are prepared by nature of expenses, and thus does not provide adequate information for decision-making.
- Analysis of similar infrastructure companies in the European Union shows that virtually all rail infrastructure companies and most freight forwarding companies present income statement in their financial statements by nature of expenses. Therefore, the change in the presentation of the income statement will ensure better comparability with other similar companies and greater transparency, thus providing an even clearer picture of the *Company's* operations compared with its competitors.
- The change in the classification of expenses has no impact on the *Company's* financial position.

The comparatives of the income statement for 2020 have been reclassified accordingly to ensure comparability. The presentation and classification of other items within financial statements remained unchanged in the reporting period and in the comparable reporting periods.

The IFRS require the *Company's* management to make assumptions and judgments that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. Apart from the those mentioned below, there are no other areas that would require significant or complex assumptions or areas where the assumptions and estimates made would be material in the context of the financial statements.

The IFRS, the amendments thereto, and the amendments to their interpretations, the implementation of which had a material impact on the *Company's* operations, did not become effective in the reporting year.

The following amendments to IFRS are effective for annual periods beginning on or after 1 January 2021 and have been approved for use in the EU:

- *Amendments to IFRS 16, Covid-19 Related Rent Concessions* (effective for annual periods beginning on or after 1 June 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification;
- *Reform of the Interest Rate Benchmark (IBOR), phase 2 with amendments to IFRS 9, IAS 39, IFRS 7 and IFRS16* (effective for annual periods beginning on or after 1 January 2021).

The following amendments or interpretations to standards will be effective for annual periods beginning on or after 1 January 2022 that may affect the *Company's* financial statements and are currently being assessed by the Management, but are not expected to be material:

- *Amendments to IFRS 4 – deferral of IFRS 9* (effective for annual periods beginning on or after 1 January 2023);
- *Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for annual periods beginning on or after a date to be determined by the IASB, not yet adopted by the EU);
- *IFRS 17 Insurance Contracts* (effective for annual periods beginning on or after 1 January 2021, not yet adopted by the EU);
- *Amendments to IAS 1– Classification of liabilities as current or non-current* (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU);
- *Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – 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, not yet adopted by the EU).

The *Company's management* has performed an impact assessment of other standards and interpretations that will be effective for annual periods beginning on or after 1 January 2022 and does not expect them to have a material impact on the *Company's* financial statements.

## 2.2. FOREIGN CURRENCY REVALUATION

### Functional and presentation currency

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

### Transactions and balances in foreign currencies

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

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

### Foreign currency exchange rates

FOREIGN CURRENCY	EUR 31.12.2021	EUR 31.12.2020
USD	1.13260	1.22710
CHF	1.03310	1.08020
RUB	85.30040	91.46710

## 2.3. INTANGIBLE ASSETS

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

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

For intangible assets, amortisation is calculated on a straight-line basis over the estimated useful lives of the assets and is included in the income statement for the respective period. Intangible assets are generally amortised over 5 years.

## 2.4. PROPERTY, PLANT AND EQUIPMENT

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

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

The *Company* capitalises assets with a cost of more than EUR 500 and useful life of more than one year. Investments in leased assets are capitalised and recognised as property, plant and equipment.

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Other repair and maintenance costs are recognised in the income statement in the period in which they are incurred.

Gain or loss on disposal of an item of a property, plant and equipment item is calculated as the difference between the asset's carrying amount and the disposal proceeds and is included in the income statement for the period.

Where the carrying amount of a property, plant and equipment item exceeds its recoverable amount, the carrying amount is written down to its recoverable amount (see Note 3).

### Depreciation

Depreciation is calculated on a straight-line basis. Depreciation is included in the income statement.

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

For the *Company's* property, plant and equipment, the amount of depreciation for the reporting period is calculated from the carrying value of each property, plant and equipment item using the estimated useful lives of the assets.

PROPERTY, PLANT AND EQUIPMENT	USEFUL LIFE
Buildings and structures	10-130 years
Perennial plants	40 years
Railway rolling stock – wagons for technological use	22-40 years
Railway rolling stock – locomotives, diesel trains and technological equipment	5-40 years
Track equipment	30 years
Computing and communications equipment, copiers and their equipment	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 purchase or are in the process of installation are classified as "Cost of unfinished construction objects". The historical cost of unfinished construction is increased during the period for borrowing costs and other direct costs associated with the object until its commissioning into operation. The initial value of the relevant asset is not increased by borrowing costs in periods when active work on the development of the unfinished construction object is not carried out.

At the time when the objects of unfinished construction are ready for their intended use, they are reclassified into the appropriate category of property, plant and equipment and the calculation of depreciation is started. Unfinished construction objects are regularly assessed with the aim of determining whether they show any signs of impairment.

## 2.5. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

All tangible and intangible assets of the *Company* have finite useful lives (with the exception of land and museum stocks). Depreciable assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized 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 there are identifiable cash flows (cash-generating units). Impairment losses are recognized in the income statement.

Impairment losses recognised in prior periods are reviewed at each balance sheet date to determine whether there is any indication that the loss may have decreased or may no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss 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, FVPL) and financial liabilities (financial liabilities at amortized cost).

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

Equity instruments are always measured at fair value. However, management has the option to make the irrevocable choice of presenting a change in fair value in other comprehensive income if the instrument is not held for trading purposes. If the equity instrument is held for trading, changes in fair value must be reported in the income statement.

### Recognition and derecognition

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

The recognition of financial assets is terminated when the *Company's* contractual right to the cash flow generated by the financial asset ceases, or when the *Company* transfers the financial asset to another party, or when the significant risks of the asset and the remuneration to be received from the asset are transferred. The acquisition and sale of financial assets as part of operating activities shall be accounted for on the trading day, i.e., the date on which the *Company* decides to buy or sell the asset.

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

### Measurement

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

### Financial assets at fair value with revaluation through profit or loss account

This category includes the *Company's* equity instruments, which include Other securities and Investments. These investments are included in non-current assets unless management plans to sell them within 12 months of the reporting date. The fair value of these investments is determined based on estimates made by the *Company's* management based on the financial information of these investments. Changes in fair value are recognised in the income statement.

Dividends on investments are recognized in the income statement when the *Company* has a legal right to receive payment.

### **Financial assets at amortised cost**

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

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

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, current account balances and short-term highly liquid investments that are readily convertible to known amounts of cash and which are not exposed to significant changes in value.

### **Impairment of financial assets at amortised cost**

Impairment is recognised using the expected credit loss (ECL) model. The model follows a three-step approach based on a change in the credit quality of the financial asset compared to initial recognition. At the time of initial recognition of the financial asset, the *Company* recognises the immediate loss equal to the 12-month ECL, even if the financial asset does not show any signs of impairment (buyer and customer debt is recognised at its lifetime ECL). In the event of a significant increase in credit risk, impairment is measured using the asset's lifetime ECL instead of the 12-month ECL. The model includes an operational relief for trade receivables.

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

The receivables due from the related parties, as well as loans granted to the related parties, are divided into a separate group for ECL purposes, taking into account not only past experience, but also the creditworthiness and forecasts of future development of their ultimate beneficiary owner - 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 calculation of ECL.

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

### **Financial liabilities at amortised cost**

Financial liabilities at amortised cost includes "Borrowings from credit institutions", "Other borrowings", "Trade payables and other payables" and "Amounts owed to affiliated companies".

Financial liabilities at amortised cost are initially recognized at fair value. In subsequent periods, financial liabilities at amortised cost are recognised at amortised cost using the effective interest method. Financial liabilities at amortised cost are classified as current liabilities if the payment term is one year or less. If the payment term is longer than one year, they are classified as non-current liabilities.

### **Borrowings**

Initially borrowings are recognised at fair value less the costs associated with the receipt of borrowings. Subsequently, borrowings are carried at amortised cost using the effective interest rate method. The difference between the amount of cash received, less the costs associated with the receipt of borrowings and the cost of the repayment of the borrowing, is gradually charged to profit or loss account using the effective interest rate on the borrowing. This difference is recognised under financial costs.

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

## Netting off the financial assets and liabilities

Financial assets and liabilities are credited to each other and presented in net book value, if there is a legal right to make such offsetting, as well as it is planned to settle at net values or to transfer the asset and pay for the liability simultaneously.

## 2.7. INVENTORIES

Inventories are measured at the lower of cost or net realisable value. The net realisable value is the estimated selling price determined in the normal course of the *Company's* business, less estimated costs of completion and selling expenses. The cost is determined using the weighted average inventory valuation method for fuel and the FIFO (first in, first out) method for other inventory components.

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

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

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

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

## 2.9. OTHER RESERVES

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

## 2.10. ACCRUALS FOR UNUSED ANNUAL LEAVES

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

## 2.11. PROVISIONS

Provisions are recognised when the *Company* has incurred legal or constructive obligations as a result of past events, and it is expected that the performance of these obligations will require from the *Company* an outflow of resources containing economic benefits, and the amount of obligation can be sufficiently reliably estimated.

If the *Company* expects that the expenses necessary to create the provision will be recovered in part or in whole, the reimbursement of these expenses shall be recognised as a separate asset only when it is practically certain that these expenses will actually be reimbursed. The costs associated with any provision are reflected in the profit or loss account less the amounts that have been recovered.

## 2.12. CORPORATE INCOME TAX

Corporate income tax is calculated in accordance with the legislation in force at the end of the reporting period. Current legislation sets the tax rate at 20 percent of the calculated tax base, which is divided by a factor of 0.8 before the tax rate is applied. Corporate income tax calculated on the distribution of profits in the form of dividends is presented separately in the income statement, while in other cases under other operating expenses.

## 2.13. REVENUE RECOGNITION

Revenue is the consideration received as a result of the performance of the operating activity. Revenue is measured at the contractual transaction price. The transaction price is the amount that the Company expects to receive after the transfer of control over the goods or services, except for the amounts collected on behalf of third parties (for example, value added tax). The transaction price is reduced by the discounts or other benefits granted to the customer. Specific criteria for the recognition of the Company's revenue for each of the types of revenue are set out below.

The *Company* does not have any contracts with customers, where the settlement period exceeds one year, therefore, the *Company* does not make adjustments to reflect changes in the value of money over time. In addition, the settlement does not provide for variable consideration.

The proceeds from the sale of goods are recognized at the moment of transfer of control, i.e., at the moment when the *Company* has delivered the relevant product to the customer and it has accepted the product, as well as it is probable that the receivable will be collected.

Revenue from the provision of services is recognised in the period in which the services were provided, taking into account the ratio of the total service provided to the total contractual service, if applicable.

**The *Company* provides such services (which are generally recognized in accordance with IFRS 15):**

- **Public use railway infrastructure services** – provide access to the railway infrastructure. These services are provided by the infrastructure manager on a non-discriminatory basis to all carriers. *Latvijas dzelzceļš* provides a public-use railway minimum access service package service for access to public-use railway infrastructure, which connects the railway infrastructure with service facilities (minimum access service complex), and service location maintenance service. The services of the minimum access package are provided from 1 July 2019 according to Commission implementation Regulation (EU) 2015/909 on the procedure for calculating the costs directly incurred in the provision of train services of 12 June 2015. The *Company* has been granted state budget funding to ensure financial compensation for the operator of the railway infrastructure used by the public. On the amount of the received grant (excluding VAT), revenue is recognised in the period when the services are provided, but not more than in the amount of the received funding.
- **Service point maintenance services** – maintenance services of passenger stations and stopping points. The *Company* has received state budget funding for the maintenance of unused service facilities. On the amount of the received grant (excluding VAT), revenue is recognised in the period when the services are provided, but not more than in the amount of the received funding.
- **Ancillary services of the infrastructure operator** – handling of freight wagons with or without train formation, maintenance and inspection of wagons. Revenue is recognised in the period in which the services are rendered.
- **Lease services** - The *Company* leases buildings, structures, land and other fixed assets that are not necessary for the performance of its activities, primarily to carriers and other companies and institutions related to the operation of the railway system. Leasing unused space on railway infrastructure to external customers reduces the cost of the basic service. As a result, the competitiveness of the basic service increases, as well as the efficiency of the use of facilities increases. Revenue is recognised in the period in which the services are rendered. Revenue from rental services is recognised in accordance with IFRS 16.
- **Electricity sales services** - provision of electricity distribution and trading services to individuals and legal entities, dependent subsidiaries and provision of electricity for electric traction of passenger trains. The cost of electricity distribution (traction substations and overhead lines) for the traction of passenger trains is included in the charge for the use of public railroad infrastructure and is not part of this service. *Latvijas dzelzceļš* provides electricity sales services to electricity consumers in accordance with the obligations set forth in the *Law on the Electricity Market*, the *Law on Regulatory Authorities for Public Utilities* and Cabinet Regulation No. 50 "Regulations on Trade and Use of Electricity". *Latvijas dzelzceļš* operates as a primary service provider, therefore revenues and expenses are recorded on a gross basis. Revenue is calculated by multiplying the tariff by

the number of kilowatt hours consumed and is recognized in the period in which the consumption occurs.

- **The services of a principal** include the submission of an import declaration, the performance of a customs procedure - transit procedure - and temporary storage. Revenue is recognised in the period in which the services are rendered.
- **Electronic communications services** - data and electronic messaging services, leased line services, infrastructure access services for electronic communications networks. Revenue is recognised based on actual use of the network during the reporting period.
- **Information technology services** - includes services related to information systems for freight, passenger, train, and business support, control, and management information systems. Revenue is recognised in the period in which the services are rendered.
- **Construction services** – refers to construction works for railroad infrastructure facilities made by the *Company*. Revenue is recognised in the period in which the services are rendered.
- **Other services** - these services include administrative services for dependent companies, sale of self-generated heat, administrative services, and various other minor services for legal entities and individuals. 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 from cash and cash equivalents is classified as financial income.

### Income from fines

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

### Dividend income

Dividend income is recognized when the legal right to receive the payment is established.

## 2.14. LEASE AGREEMENTS

### Classification

When entering the contract, the *Company* assesses whether the contract is a lease or includes a lease. A contract is a lease or includes a lease where the contract confers the right to control the use of an identifiable asset for a specified period of time in exchange for consideration. In order to assess whether the contract is a lease or includes a lease, the *Company* shall assess whether:

- The contract provides for the use of the identifiable asset – the asset may be indicated directly or indirectly and must be physically separable or reflect the full capacity of the asset from the physically separable asset. If the supplier has significant rights to replace the asset, the asset is not identifiable;
- The *Company* has the right to derive all economic benefits from the use of the identifiable asset for the entire period of its use;
- The *Company* has the right to determine the type of use of the identifiable asset. The *Company* has the right to determine the type of use when it can make a decision on how and for what purpose the asset will be used. In cases where the relevant decisions on how and for what purpose the asset is used are predetermined, the *Company* must assess whether it has the right to operate the asset or designate the operations of the asset in a specific manner, or the *Company* has designed the asset in a manner that determines in advance 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

The lease is recognised as the right-of-use asset with corresponding lease obligations on the date when the leased asset is available to the *Company* for use. The cost of the right-of-use assets consists of:

- initial value of lease liabilities;
- any lease payments made on or before the start date, net of rental incentive payments received;
- any initial direct costs.

The right-of-use asset is amortised on a straight-line basis from the start date until the end of the useful life of the underlying asset. Depreciation is calculated on a linear basis from the start date of the lease to the end of the lease term unless it is planned to redeem the asset. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted to take into account the revaluation of lease liabilities.

Assets and liabilities related to lease upon initial recognition are measured at the present value of the remaining lease payments, discounted at the *Company's* comparable interest rate. The lease liability includes the present value of the following lease payments:

- fixed lease payments (including in substance fixed lease payments), net of rent incentives;
- variable lease payments that depend on an index or rate;
- payments to be made by lessee under residual value guarantees;
- the exercise price of the call option if there are reasonable grounds for believing that the lessee will exercise the option, and
- lease termination penalties if the lease term reflects the fact that the lessee uses the lease termination option.

Lease liabilities are remeasured when there is a change in future lease payments due to a change in the index or interest rate used to determine the lease payments, a change in the *Company's* estimate of the amount of lease payments, or a change in the *Company's* estimate in respect to lease termination. When a lease liability is remeasured, an appropriate adjustment is made to the carrying amount of the right-of-use asset or recognised in profit or loss if the carrying amount of the right-of-use asset decreases to zero.

Each lease payment is apportioned between the lease liability and the interest expense on the lease liability. Interest expense on the lease liability is recognized in the income statement over the lease term to generate a constant periodic rate of interest on the remaining balance of the lease liability for each period.

## Short-term leases and leases where the underlying asset is of low value

Lease payments relating to short-term leases or leases in which the underlying asset is of low value are recognized as an expense in the income statement on a straight-line basis. Short-term leases are leases with a lease term at the inception date of 12 months or less.

## Lessor accounting

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 out under operating leases are presented under property, plant and equipment at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis. Rental income from operating leases and advance payments received from customers are recognised in the income statement over the lease term.

## Accounting for sublease transactions (the *Company* is a Lessor)

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

Accounting for sublease transactions:

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

## 2.15. STATE BUDGET CO-FINANCING AND EU FUNDING

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

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

Pursuant to the provisions of the Multi-Annual Agreement, the *Company* has inserted columns "2021 results before financial stability payments" and "2020 results before financial stability payments" in the Statement of comprehensive income. Although IFRS does not require such an indicator, the non-IFRS indicator is presented in the financial statements to provide the reader with a clear view of the *Company's* financial position without receipt of financial stability payments.

## 2.16. RELATED PARTIES

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

## 2.17. EVENTS AFTER THE BALANCE SHEET DATE

Events after the balance sheet date that provide additional information about the *Company's* financial position at the balance sheet date (adjusting events) are reported within these financial statements. If events after the end of the reporting year are not adjusting, they are only included in the notes to the financial statements if they are material.

## 2.18. EMPLOYEE BENEFITS

### **Social security and pension plan contributions**

The *Company* makes social security contributions to the State Pension Insurance Scheme under the State Funded Pension Scheme in accordance with Latvian legislation. The State Funded Pension Scheme is a defined contribution pension plan under which the *Company* is legally obliged to make payments. 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 security contributions are expensed on an accrual basis and are included in employee benefits. Pursuant to Cabinet of Regulation No. 786 *Regulation on the Distribution of the State Social Insurance Contribution Rate by Types of State Social Insurance* of 17 December 2020, in 2021 and 2020, 70.14% of national social insurance mandatory contributions are paid to finance the state defined contribution pension system.

## 2.19. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated at cost less impairment losses.

The *Company* recognises revenue only if it receives a share of the profits after the acquisition date from its subsidiary. Amounts in excess of this gain are treated as repayment of the investment and recognised as an impairment loss on the investment.

If there is objective evidence that an investment in a subsidiary is impaired, the impairment loss is calculated as the difference between the investment's carrying amount and its recoverable amount. An impairment loss for an asset may be reversed if there has been a change in the estimates used to determine the impairment since the last impairment loss was recognised.

### 3. SIGNIFICANT ASSUMPTIONS AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to make judgments, estimates and assumptions in the preparation of the financial statements that affect the application of the Company's accounting policies.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures in the notes to the financial statements and the income and expenses recognized during the period. Actual results may differ from these estimates. The areas that may be more affected by assumptions are *management's* assumptions and estimates in determining the recoverable amount of assets and provisions, as described below.

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

At each reporting date, the *Company* assesses the remaining useful lives of its property, plant and equipment. Based on the latest estimates of the Finance Department of the *Company*, the current useful life corresponds to the actual useful life of the *Company's* assets.

#### **Provisions**

In estimating the amount of provisions, *management* uses estimates of contingent obligations and the period in which the obligations could materialise. Unless these events materialise or materialise differently, actual costs may differ from those estimated. For more detailed information on the assumptions regarding provisions, please refer to Note 26.

#### **Impairment of property, plant and equipment**

An impairment loss is recognised for property, plant and equipment items that are not used in operations and for assets whose expected future economic benefits are significantly lower than their carrying amount. The largest impairment loss is recognized for buildings, structures and track assets based on the future cash flows from the use of these assets for the provision of services. The estimated future cash flows are based on actual figures for 2021 and the budget for 2022, extrapolated to the next 10 years. The calculation period of 10 years was chosen due to the specifics of the infrastructure operator's assets - they are long-term assets that provide income over a long period of time. In 2021, a recalculation was performed using analogous assumptions, which did not change the previously recognised impairment loss.

A weighted average cost of capital (WACC) of 2.54% was used in discounting the future projected cash flows, which was determined to be the weighted average cost of capital of the infrastructure operator. The WACC is the key indicator affecting the impairment estimate. At a WACC of 4.04% (an increase of 1.5%), the impairment loss would increase by EUR 164 million. At a WACC of 2% (a decrease of 0.54%), no impairment loss would be recognised.

#### **Financial stability payment**

The main task of the *Company* is to ensure the management of the state railroad infrastructure and safe, high-quality and efficient railroad and logistics services in the interests of the Latvian State and the national economy. In order to ensure this task, a Multi-Annual Agreement was concluded with the Ministry of Transport, which provides for the financial stability procedure (see Note 4).

## 4. REVENUE

		(EUR)
TYPES OF OPERATION	2021	2020
<b>Revenue from contracts with customers (IFRS 15):</b>		
Fees for the use of public-use railway infrastructure	54 505 014	60 324 456
Additional services of the infrastructure manager	19 059 715	20 777 350
Electricity sale services	6 480 146	6 637 836
Information technology services	3 641 748	4 068 172
Specific services related to the infrastructure maintenance and repair	2 013 156	1 319 835
Principal services	1 245 053	1 364 081
Services in passenger stations	1 003 178	995 624
Electronic communication services	615 869	527 734
Construction services	90 722	129 871
Other services	3 757 055	3 397 659
<b>Other income:</b>		
Revenue for the maintenance of railway infrastructure (state budget funding)	30 068 006	30 276 102
Financial stability income*	30 664 125	22 514 295
Rental income	4 309 495	3 953 981
Revenue for maintenance of service sites (state budget financing)	257 222	249 126
<b>Total</b>	<b>157 710 504</b>	<b>156 536 122</b>

\* In the reporting year, the funding required to ensure financial stability was recognized as other income in accordance with the recognition principles set out in IAS 20 *Government Grants*. These principles provide for the recognition of a government grant when there is reasonable certainty that the conditions attached to the grant will be complied with. In addition, grants to cover costs should be recognised in the period in which the costs are incurred, provided there is reasonable certainty that the grant will be received in the future.

The criteria for the *Company* to receive a compensation payment are non-compliance with the conditions for financial stability set out in the Multi-Annual Agreement. In view of the fact that the *Company* did not meet the conditions for financial stability provided for in the Multi-Annual Agreement in 2021, the criteria for receiving financial stability payment provided for in the Multi-Year Agreement were accordingly recognised as income in 2021. The same conditions prevailed also in the year 2020.

The required compensation payment of EUR 30 664 125 to be made during 2022 has been recognised in the balance sheet as "Accrued income" based on the commitments and obligations under the Multi-Annual Agreement. In 2020, to ensure financial stability, *Latvijas dzelzceļš* required EUR 22 514 295, of which EUR 9 503 295 was not received in 2020 and was therefore recognised as "Accrued income".

To present the total recorded financial stability payments clearly in the annual financial statements, the *Company's* statement of comprehensive income includes an additional column "2021 results before financial stability payments" and "2020 results before financial stability payments", accordingly. Disclosure of this information is not required by IFRS and is provided as an additional indicator to meet the disclosure requirements under the Multi-Annual Agreement for the *Company's* profit or loss for the year.

## 5. OTHER INCOME

	(EUR)	
	2021	2020
Gradual recognition of deferred income	17 584 079	18 763 195
Gain on sale of inventories	2 586 532	2 424 165
Gain on sale of property, plant and equipment	762 597	602 706
Adjustment of other provisions (see Note 26)	335 240	1 855 027
Foreign currency exchange rate fluctuations	167 377	-
Fines and penalties	158 450	168 133
VAT adjustment for the 2019 minimum access service * 1)	-	2 571 489
Funding for a work-based learning project	9 215	17 690
Other income	393 057	579 849
<b>Total</b>	<b>21 996 547</b>	<b>26 982 254</b>

\*1) In 2020, the calculated VAT in the amount of EUR 2 571 489 from the received grant for the maintenance of public railway infrastructure and service points was adjusted.

## 6. COST OF GOODS, MATERIALS AND SERVICES SOLD

	(EUR)	
	2021	2020
Electricity	9 119 463	9 323 249
Cost of materials	4 092 970	4 932 660
Fee for manoeuvre work	3 874 815	5 428 615
Security services and maintenance of security equipment	3 665 013	4 635 265
Rent and utilities	2 582 385	2 568 823
Property, plant and equipment repair costs	2 417 727	2 731 987
Costs of railway administration institutions	2 292 589	2 292 589
Heating and fuel	1 947 971	2 098 706
Fees for the work of locomotives and crews	1 196 948	1 115 457
IT software maintenance	1 383 303	1 967 560
License maintenance and support fees	729 783	936 129
Costs of road transport services	722 617	662 578
Costs of the principal's services	611 325	637 948
Real estate tax	593 756	619 696
Technical support costs for electronic communications and signalling equipment	503 910	607 052
Consulting firm services	486 032	509 151
Liability insurance fees	436 145	414 726
Membership fees	309 633	359 202
Labour protection costs	177 174	189 127
Other costs*1)	2 369 521	2 551 453
<b>Total</b>	<b>39 513 080</b>	<b>44 581 973</b>

\*1) Other costs include payment for the services provided by the sworn auditor company SIA PricewaterhouseCoopers:

	(EUR)	
	2021	2020
On the audit of financial statements	50 600	50 100
For performing other expert tasks	-	17 017

## 7. PERSONNEL EXPENSES

(EUR)

	2021	2020
Salaries	66 301 664	71 813 051
Compulsory state social insurance contributions	16 535 379	18 457 403
Severance pays	3 788 590	4 902 810
Other compulsory social insurance contributions	791 461	435 623
Changes in accrued vacation liabilities	389 073	(1 422 509)
Other personnel expenses	124 095	125 037
<b>Total</b>	<b>87 930 262</b>	<b>94 311 415</b>
of which remuneration to the members of the Board and the Council of the <i>Company</i>	610 184	612 795
<i>incl. remuneration for work</i>	<i>493 769</i>	<i>494 666</i>
<i>Compulsory state social insurance contributions</i>	<i>116 415</i>	<i>118 129</i>

## 8. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

(EUR)

	2021	2020
Depreciation of property, plant and equipment and intangible assets	43 763 606	47 103 053
Impairment of property, plant and equipment and intangible assets	4 081 242	17 855 261
Depreciation of right-to-use assets	2 528 979	2 442 812
Changes in provisions for obsolete materials (see Note 22)	(274 614)	431 780
<b>Total</b>	<b>50 099 213</b>	<b>67 832 906</b>

## 9. OTHER COSTS

(EUR)

	2021	2020
Costs provided for in the collective agreement of the Latvijas dzelzceļš Group, etc.	307 474	253 691
Losses from disposals of property, plant and equipment and unfinished construction	257 696	516 626
Change of provisions for doubtful debts (see Note 23)	36 769	8 623
Currency conversion	15 135	14 786
Change of other provisions	5 448	835 178
Fines and penalties	3 399	16 708
Social infrastructure maintenance costs	107	109
Foreign currency exchange rate fluctuations	-	14 460
Other costs	238 041	200 443
<b>Total</b>	<b>864 069</b>	<b>1 860 624</b>

## 10. INCOME FROM INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(EUR)

	2021	2020
Dividends received from <i>Latvijas dzelzceļš</i> subsidiaries:	<b>144 231</b>	<b>19 179 528</b>
SIA "LDZ CARGO"	-	12 294 615
SIA "LDZ ritošā sastāva serviss"	-	3 999 699
SIA "LDZ infrastruktūra"	-	2 250 073
SIA "LDZ Loģistika"	-	313 559
SIA "LDZ apsardze"	112 000	229 147
AS "LatRailNet"	32 231	92 435

## 11. INCOME FROM INVESTMENTS IN OTHER COMPANIES

(EUR)

DIVIDEND INCOME	2021	2020
Belarus-Latvia joint venture MIRIGO	839	1 182
<b>Total</b>	<b>839</b>	<b>1 182</b>

## 12. FINANCIAL INCOME AND EXPENSES, NET

(EUR)

	2021	2020
<b>Financial income</b>	<b>423 434</b>	<b>557 974</b>
Bank interest	-	3
Other interest income	423 434	557 971
<b>Financial expenses</b>	<b>(1 868 931)</b>	<b>(2 231 142)</b>
Bank interest	(1 753 660)	(2 095 746)
Interest expenses on leases	(115 271)	(135 396)
<b>Financial expenses, net</b>	<b>(1 445 497)</b>	<b>(1 673 168)</b>

## 13. PROPERTY, PLANT AND EQUIPMENT

(EUR)

	LAND PLOTS	BUILDINGS, STRUCTURES AND PERENNIALS	TRACKS	LONG-TERM INVESTMENTS IN LEASED ASSETS	TECHNOLOGICAL EQUIPMENT AND DEVICES	COMPUTERS, EQUIPMENT AND SUPPLIES, MEANS OF COMMUNICATION, COPIERS AND EQUIPMENT	OTHER PPE	COST OF UNFINISHED CONSTRUCTION OBJECTS	TOTAL
<b>Historical cost at 01.01.2021</b>	<b>855 252</b>	<b>204 922 556</b>	<b>852 872 385</b>	<b>105 292</b>	<b>309 750 405</b>	<b>39 578 025</b>	<b>31 469 444</b>	<b>1 273 517</b>	<b>1 440 826 876</b>
Acquisition and creation 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)
<b>Historical cost at 31.12.2021</b>	<b>851 290</b>	<b>205 891 459</b>	<b>855 906 440</b>	<b>105 292</b>	<b>308 202 008</b>	<b>38 844 682</b>	<b>31 433 582</b>	<b>3 751 041</b>	<b>1 444 985 794</b>
<b>Accumulated depreciation at 01.01.2021</b>	<b>-</b>	<b>120 619 402</b>	<b>506 807 045</b>	<b>66 273</b>	<b>166 891 292</b>	<b>32 154 767</b>	<b>24 554 447</b>	<b>-</b>	<b>851 093 226</b>
Calculated depreciation	-	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)
<b>Accumulated depreciation at 31.12.2021</b>	<b>-</b>	<b>123 982 808</b>	<b>531 744 329</b>	<b>74 078</b>	<b>174 086 767</b>	<b>32 169 346</b>	<b>24 965 712</b>	<b>-</b>	<b>887 023 040</b>
<b>Impairment at 01.01.2021*</b>	<b>37 801</b>	<b>2 182 327</b>	<b>15 220 032</b>	<b>-</b>	<b>325 116</b>	<b>-</b>	<b>89 985</b>	<b>-</b>	<b>17 855 261</b>
Impairment in the reporting year*	-	1 569 633	1 690 596	-	261 355	483 681	59 663	-	4 064 928
<b>Impairment at 31.12.2021</b>	<b>37 801</b>	<b>3 751 960</b>	<b>16 910 628</b>	<b>-</b>	<b>586 471</b>	<b>483 681</b>	<b>149 648</b>	<b>-</b>	<b>21 920 189</b>
<b>Carrying value at 01.01.2021</b>	<b>817 451</b>	<b>82 120 827</b>	<b>330 845 308</b>	<b>39 019</b>	<b>142 533 997</b>	<b>7 423 258</b>	<b>6 825 012</b>	<b>1 273 517</b>	<b>571 878 389</b>
<b>Carrying value at 31.12.2021</b>	<b>813 489</b>	<b>78 156 691</b>	<b>307 251 483</b>	<b>31 214</b>	<b>133 528 770</b>	<b>6 191 655</b>	<b>6 318 222</b>	<b>3 751 041</b>	<b>536 042 565</b>

\*In 2021, a decrease in the value of fixed assets by EUR 4 064 928 was recognised. Impairment is recognised for 523 individual assets that are not used in the ordinary course of business and whose realizable value is expected to be lower than their carrying amount.

The part of the salary capitalized in 2021 is included in the acquisition costs in amount of EUR 1 268 852 (in 2020 – EUR 1 311 528). Funds in the amount of EUR 15,048,454 EUR (in 2020 – 17 818 753 EUR) were spent on the renewal, modernisation and acquisition of fixed assets, intangible investments, as well as the construction of new facilities in 2021).

Translation from Latvian original

(EUR)

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

## 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 TECHNOLOGICAL EQUIPMENT AND APPLIANCES	THE RIGHT-OF-USE OF COMPUTERS, EQUIPMENT AND SUPPLIES, MEANS OF COMMUNICATION, COPIERS AND EQUIPMENT	RIGHT-OF-USE OF OTHER FIXED ASSETS	TOTAL
<b>Historical cost of 01.01.2021</b>	<b>409 110</b>	<b>3 086 235</b>	<b>4 254 956</b>	<b>1 386 099</b>	<b>1 019 409</b>	<b>4 294 922</b>	<b>14 450 731</b>
New lease agreements	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)
<b>Historical cost at 31.12.2021</b>	<b>472 674</b>	<b>4 758 365</b>	<b>2 523 747</b>	<b>1 313 733</b>	<b>1 019 409</b>	<b>4 299 398</b>	<b>14 387 326</b>
<b>Accumulated depreciation at 01.01.2021</b>	<b>122 526</b>	<b>922 285</b>	<b>1 062 398</b>	<b>783 422</b>	<b>485 112</b>	<b>934 102</b>	<b>4 309 845</b>
Calculated depreciation	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)
<b>Accumulated depreciation at 31.12.2021</b>	<b>195 930</b>	<b>1 537 280</b>	<b>1 523 494</b>	<b>1 062 130</b>	<b>727 668</b>	<b>1 843 158</b>	<b>6 889 660</b>
<b>Carrying value at 01.01.2021</b>	<b>286 584</b>	<b>2 163 950</b>	<b>3 192 558</b>	<b>602 677</b>	<b>534 297</b>	<b>3 360 820</b>	<b>10 140 886</b>
<b>Carrying value at 31.12.2021</b>	<b>276 744</b>	<b>3 221 085</b>	<b>1 000 253</b>	<b>251 603</b>	<b>291 741</b>	<b>2 456 240</b>	<b>7 497 666</b>

Translation from Latvian original

(EUR)

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

## 15. RESEARCH AND DEVELOPMENT COSTS

(EUR)

COSTS	2021	2020
Internal expenditure on research	25 125	41 544
External spending for research commissioned with other institutions, companies or organizations.	11 175	72 639
<b>Total</b>	<b>36 300</b>	<b>114 183</b>

Internal research by type of research work:

(EUR)

COSTS	2021	2020
Fundamental research	5 025	8 309
Applied research	5 025	8 309
Experimental studies	15 075	24 926
<b>Total</b>	<b>25 125</b>	<b>41 544</b>

## 16. INTANGIBLE ASSETS

(EUR)

LICENCES AND RIGHTS	2021	2020
<b>Historical cost at the beginning of the year</b>	<b>9 203 082</b>	<b>9 682 330</b>
Additions	257 684	5 943
Reclassified from property, plant and equipment	-	302 886
Disposals	(73 854)	(788 077)
<b>Historical cost at the end of the year</b>	<b>9 386 912</b>	<b>9 203 082</b>
<b>Accumulated depreciation at the beginning of the year</b>	<b>8 075 102</b>	<b>8 124 696</b>
Calculated depreciation	406 100	537 968
Reclassified from property, plant and equipment	-	68 510
Disposed	(73 192)	(656 072)
<b>Accumulated depreciation at the end of the year</b>	<b>8 408 010</b>	<b>8 075 102</b>
<b>Impairment in the reporting year</b>	<b>16 314</b>	<b>-</b>
<b>Carrying value at the beginning of the year</b>	<b>1 127 980</b>	<b>1 557 634</b>
<b>Carrying value at the end of the year</b>	<b>962 588</b>	<b>1 127 980</b>

## 17. INVESTMENTS IN SUBSIDIARIES

## SUBSIDIARIES

<b>SIA "LDZ CARGO"</b>	
Uniform registration number	40003788421
Address	Dzirnavu iela 147, k-1, Riga, LV-1050
Shareholding, %	100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year	01.01.2021 – 31.12.2021
<b>SIA "LDZ ritošā sastāva serviss"</b>	
Uniform registration number	40003788351
Address	Turģeņeva iela 21, Riga, LV-1050

Shareholding, %	100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year	01.01.2021 – 31.12.2021
<b>SIA "LDZ infrastruktūra"</b>	
Uniform registration number	40003788258
Address	Gogoļa iela 3, Rīga, LV-1050
Shareholding, %	100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year	01.01.2021 – 31.12.2021
<b>SIA "LDZ apsardze"</b>	
Uniform registration number	40003620112
Address	Zasas iela 5-3, Rīga, LV-1057
Shareholding, %	100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year	01.01.2021 – 31.12.2021
<b>AS "LatRailNet"</b>	
Uniform registration number	40103361063
Address	Turģeņeva iela 21, Rīga, LV-1050
Shareholding, %	100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year	01.01.2021 – 31.12.2021
<b>SIA "LDZ Loģistika"</b>	
Uniform registration number	40003988480
Address	Dzirnavu iela 147, k-2, Rīga, LV-1050
Shareholding, %	100% shareholder - VAS "Latvijas dzelzceļš"
Reporting period	01.01.2021 – 31.12.2021
<b>SIA "LDZ ritošā sastāva serviss" subsidiary SIA "Rīgas Vagonbūves uzņēmums "Baltija"™"</b>	
Uniform registration number	40103419565
Address	Turģeņeva iela 14, Rīga, LV-1050
Shareholding, %	100% shareholder - SIA "LDZ ritošā sastāva serviss"
Reporting period	01.01.2021 – 31.12.2021

## 18. CARRYING VALUE OF INVESTMENT IN SUBSIDIARIES

(EUR)			
SUBSIDIARY	LDZ HOLDING, %	31.12.2021	31.12.2020
SIA "LDZ CARGO"	100	80 492 369	80 492 369
SIA "LDZ ritošā sastāva serviss" *1)	100	29 351 905	29 351 905
SIA "LDZ infrastruktūra"	100	11 166 070	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
<b>Total</b>	<b>X</b>	<b>121 982 718</b>	<b>121 982 718</b>

\*1) SIA "LDZ ritošā sastāva serviss" is a 100% shareholder of SIA "Rīgas Vagonbūves Uzņēmums "Baltija"™".

Long-term financial investments in subsidiaries are measured in the accounts of *Latvijas dzelzceļš* at cost less accumulated impairment losses, if any.

## 19. INDICATORS OF SUBSIDIARIES FOR 2021

(EUR)

SUBSIDIARY	LDZ HOLDING, %	PROFIT/ (LOSS) FOR 2021	PROFIT/ (LOSS) FOR 2020	EQUITY	
				31.12.2021	31.12.2020
SIA "LDZ CARGO"	100	7 054 410	(3 302 621)	121 752 262	114 697 852
SIA "LDZ ritošā sastāva serviss"	100	752 505	(5 293 735)	37 057 826	36 305 321
SIA "LDZ infrastruktūra"	100	(10 241)	(3 216 840)	12 591 920	12 602 161
SIA "LDZ apsardze"	100	119 646	159 488	642 754	635 108
AS "LatRailNet"	100	57 848	64 462	131 066	105 449
SIA "LDZ Loģistika"	100	81 283	(126 704)	1 330 323	1 249 040
<b>Total</b>	<b>x</b>	<b>8 055 451</b>	<b>(11 715 950)</b>	<b>173 506 151</b>	<b>165 594 931</b>

*Latvijas dzelzceļš* Group operates public railway infrastructure, provides railway transport services and related services. The composition of the *Group*: the controlling company of the *Group* is the state joint stock company *Latvijas dzelzceļš*, SIA "LDZ CARGO", SIA "LDZ ritošā sastāva serviss", SIA "LDZ infrastruktūra", SIA "LDZ apsardze", SIA "LDZ Loģistika", AS "LatRailNet", as well as the subsidiary of SIA "LDZ ritošā sastāva serviss", SIA "Rīgas Vagonbūves Uzņēmums "Baltija".

A uniform strategy and goals of the *Group* have been developed, ensuring optimal distribution of production and investment resources between business lines and *Group* companies, coordination of decision-making, and effective control of their implementation. *Latvijas dzelzceļš* represents the *Group's* interests at the international level.

*Latvijas dzelzceļš* provides the minimum set of public access services and access to the public railroad infrastructure pursuant to Section 12.<sup>1</sup>, paragraph one of the Railway Law, connecting the railroad infrastructure with service points, services, freight car preparation, wagon maintenance and inspection, electricity distribution and trade services, leasing services, information technology services, electronic communication services, principal services, and other services.

SIA *LDZ CARGO* carries out local and international rail freight transportation, provides traction services, rolling stock lease services, and organises international passenger transportation.

SIA *LDZ ritošā sastāva serviss* performs technical maintenance and repair of railroad vehicles, equips and modernizes locomotives, and provides locomotive rental services.

SIA *LDZ Loģistika* offers intermodal freight forwarding and logistics services, which also deal with obtaining and organizing new freight transportation between European and Asian countries.

SIA *LDZ apsardze* offers various objects, including real estate, critical railroad infrastructure, and physical and technical security services for freight transport, as well as the design, installation, and maintenance of security, fire protection and video surveillance systems. Services are provided to both legal entities, including *Group* companies, and individuals.

SIA *LDZ infrastruktūra* provides services in the field of rental of track construction machinery and equipment. In 2022 it is planned to liquidate SIA "LDZ infrastruktūra".

AS *LatRailNet* performs the essential functions of the railway infrastructure manager. This company makes decisions on the allocation of rail infrastructure capacity, the allocation of train paths, the system for calculating access charges, the setting, assessment, and collection of charges, and cooperates with other major players in international transport.

The subsidiary of SIA *LDZ ritošā sastāva serviss* SIA *Rīgas Vagonbūves uzņēmums "Baltija"* was historically founded with the aim of developing wagon construction in Latvia.

In accordance with Cabinet Regulation No. 13 of 12 January 2022, it is planned to cease VAS *Latvijas dzelzceļš* shareholding in *LDZ infrastruktūra* by liquidation and as a result of reorganization to add SIA *Rīgas vagonbūves uzņēmums "Baltija"* to SIA *LDZ ritošā sastāva serviss*.

## 20. LOANS TO AFFILIATED COMPANIES

The balance of the loan issued to *LDZ ritošā sastāva serviss* to finance the modernisation of diesel locomotives as of 31.12.2021 is EUR 29 342 995. In 2021, *SIA LDZ ritošā sastāva serviss* made a partial early repayment of the loan, which significantly reduced the amount of the outstanding loan.

The movement of the loan balances is shown in the following table:

LOANS TO RELATED COMPANIES	BALANCE AT 01.01.2021 (GROSS CARRYING VALUE)	RECLASSIFIED BY PAYMENT TERM	RECEIVED REPAYMENT OF LOANS	BALANCE AT 31.12.2021 (GROSS CARRYING VALUE)	ALLOWANCE FOR EXPECTED CREDIT LOSSES *	(EUR)
						CARRYING AMOUNT 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
<b>Total</b>	<b>43 637 613</b>	<b>-</b>	<b>(13 913 513)</b>	<b>29 724 100</b>	<b>(381 105)</b>	<b>29 342 995</b>

\* In 2021, allowances for expected credit losses were reviewed and reduced to EUR 381 105. The decrease was mainly due to the decrease in the loan balance and the improvement of the financial indicators of *SIA LDZ ritošā sastāva serviss* as compared to previous periods.

LOANS TO RELATED COMPANIES	BALANCE AT 01.01.2020 (GROSS CARRYING VALUE)	RECLASSIFIED BY PAYMENT TERM	RECEIVED REPAYMENT OF LOANS	BALANCE AT 31.12.2020 (GROSS CARRYING VALUE)	ALLOWANCE FOR EXPECTED CREDIT LOSSES *	(EUR) CARRYING AMOUNT AT 31.12.2020 (NET BOOK VALUE)
Non-current portion	43 637 613	(4 323 745)	-	39 313 868	(502 819)	38 811 049
Current portion	4 323 745	4 323 745	(4 323 745)	4 323 745	(213 526)	4 110 219
<b>Total</b>	<b>47 961 358</b>	<b>-</b>	<b>(4 323 745)</b>	<b>43 637 613</b>	<b>(716 345)</b>	<b>42 921 268</b>

\* Allowance for expected credit losses in the amount of EUR 716 345 was made in 2020 due to the fact that the financial indicators of *SIA LDZ ritošā sastāva serviss* had significantly deteriorated compared to the previous reporting periods.

OTHER SHORT-TERM LOANS TO AFFILIATED COMPANIES	(EUR)	
	2021	2020
At the beginning of the period	512 512	-
Loans issued	-	512 512
Repayment of loans	(512 512)	-
<b>At the end of the period</b>	<b>-</b>	<b>512 512</b>

## 21. OTHER LONG-TERM FINANCIAL INVESTMENTS

NAME OF THE COMPANY	SHARE %	(EUR) NET BOOK VALUE	
		31.12.2021	31.12.2020
Belarus-Latvian "MIRIGO"	3.0	10 126	10 126
SIA STREK	5.84	73 982	73 982
<b>Total</b>	<b>X</b>	<b>84 108</b>	<b>84 108</b>

## 22. INVENTORIES

	(EUR)	
	31.12.2021	31.12.2020
Road surface materials	4 387 074	6 460 795
Other materials	1 342 532	1 595 089
Spare parts	232 602	298 610
Heating and fuel	174 827	146 431
Other inventories and unfinished goods	1 482 365	1 480 991
<b>Gross book value</b>	<b>7 619 400</b>	<b>9 981 916</b>
Provisions for obsolete materials	(2 774 975)	(3 049 589)
<b>Net book value</b>	<b>4 844 425</b>	<b>6 932 327</b>

## 23. TRADE AND OTHER RECEIVABLES

	(EUR)	
	31.12.2021	31.12.2020
Trade receivables	2 477 980	2 165 791
Doubtful debts	766 149	733 181
Other receivables	1 274 756	1 080 881
<b>Gross book value</b>	<b>4 518 885</b>	<b>3 979 853</b>
Provisions for impairment of receivables	(766 149)	(733 181)
<b>Net book value</b>	<b>3 752 736</b>	<b>3 246 672</b>

	(EUR)	
RECEIVABLE IMPAIRMENT MOVEMENT TABLE	2021	2020
Provisions for impairment of receivables at the beginning of the year	733 181	731 017
Reduction of provisions due to recovery of receivables	(19 999)	(12 975)
Decrease in provisions due to debt write-off	(3 993)	(16 978)
Additional provisions created	56 960	32 117
<b>Provisions for impairment of receivables at the end of the year</b>	<b>766 149</b>	<b>733 181</b>

In order to estimate the expected impairment, receivables were grouped according to their risk characteristics and default dates (detailed information is also provided in Note 30). Expected loss rates are based on historical repayment rates, which are defined as the ratio of lost debt to corresponding revenue over the last 36 months (calculated as at 31 December 2021 or 1 January 2021, respectively). Historical loss figures have been adjusted to reflect current and projected information about macroeconomic factors affecting the ability of customers to settle with the *Company*. GDP forecasts are considered to be the most important factor, as they have the most direct impact on changes in bad debts.

When performing these calculations on 31 December 2021 and 1 January 2021, impairment provisions for trade receivables that have not been past due or past due for less than 6 months have been insignificant and are therefore recognised as nil in the financial statements.

Similar calculations were made for related party receivables, loans to related parties, other receivables, and cash and cash equivalents, only these calculations were not based on historical experience but on the default rates of external credit rating agencies for similar borrowers or groups of borrowers. This approach is chosen because the *Company* does not have historical data on losses on these groups of financial assets. As a result of the calculations on 31 December 2020, it was concluded that the credit quality of the mentioned assets was not good, therefore the expected credit losses were recognised at EUR 716 thousand. On 31 December 2021, when assessing the credit quality of subsidiaries loans and the total loan balance, the amount of recognised credit losses was reduced to EUR 381 thousand.

In accordance with the *Company's* accounting policy, trade receivables that are more than 6 months past due are generally provisioned for expected credit losses in the amount of 100%, with adjustments made only to reflect the possible recoverability of such receivables.

## 24. CASH AND CASH EQUIVALENTS

	(EUR)	
	31.12.2021	31.12.2020
Cash at bank	36 098 064	59 301 554
Cash on hand	195	177
<b>Total</b>	<b>36 098 259</b>	<b>59 301 731</b>

## 25. SHARE CAPITAL

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

The share capital of *Latvijas dzelzceļš* is EUR 289,142,391, consisting of two hundred and eighty-nine million one hundred and forty-two thousand three hundred and ninety-one shares, with a nominal value of EUR 1 (one EUR) per share.

All shares are owned by the Republic of Latvia and are fully paid. The holder of the state capital share in the joint-stock company is the Ministry of Transport. All shares of the *Company* have the same right to dividends, liquidation quota, and voting rights in the shareholder meeting.

## 26. PROVISIONS

	(EUR)	
	31.12.2021	31.12.2020
Other provisions	250 857	245 409
<b>Total non-current portion</b>	<b>250 857</b>	<b>245 409</b>
Provisions for severance benefits	773 397	-
Other provisions	3 299	3 299
<b>Total non-current portion</b>	<b>776 696</b>	<b>3 299</b>
<b>Total</b>	<b>1 027 553</b>	<b>248 708</b>

### Movement table of provisions by type of provisions in 2021

	01.01.2021.	DECREASE/ INCREASE OF PROVISIONS	31.12.2021
Provisions for severance benefits	-	773 397	773 397
Other provisions	248 708	5 448	254 156
<b>Total</b>	<b>248 708</b>	<b>778 845</b>	<b>1 027 553</b>

### Movement table of provisions by type of provisions in 2020

	At 01.01.2020	DECREASE/ INCREASE OF PROVISIONS	31.12.2020
Provisions for severance benefits	1 854 919	(1 854 919)	-
Other provisions	129 983	118 725	248 708
<b>Total</b>	<b>1 984 902</b>	<b>(1 736 194)</b>	<b>248 708</b>

## 27. BORROWINGS FROM CREDIT INSTITUTIONS

(EUR)

	31.12.2021	31.12.2020
Non-current borrowings from credit institutions	90 556 751	120 615 523
Current borrowings from credit institutions	30 058 772	38 212 777
<b>Total borrowings from credit institutions</b>	<b>120 615 523</b>	<b>158 828 300</b>

Loans were obtained from Swedbank AS, Nordea Bank AB, SEB banka AS, Nordic Investment Bank, OP Corporate Bank Latvian branch and Luminor Bank AS Latvian branch. During the reporting period, loans totalling EUR 10 540 322 were raised (refinancing of an existing loan with another credit institution) and repaid in the amount of EUR 48 753 099.

The loan agreements concluded by the *Company* with the banks specify financial covenants of VAS *Latvijas dzelzceļš* or the Consolidated Financial Statements, which must be complied with during the term of the loan agreement. As of 31 December 2020, 31 December 2021 and the beginning of 2022, no non-current borrowings had breach of covenants.

*Latvijas dzelzceļš* has not pledged its properties when receiving borrowings.

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

CURRENCY OF THE BORROWING	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%
<b>Total</b>	<b>120 615 623</b>	

**Borrowings repayable and interest rates at 31 December 2020:**

CURRENCY OF THE BORROWING	BORROWING, EUR	INTEREST RATE
EUR	120 284 069	3M EURIBOR + 0,77% to 3,5%
	38 544 231	6M EURIBOR + 0,75% to 1,2%
<b>Total</b>	<b>158 828 300</b>	

**Movement in borrowings and accrued interest**

(EUR)

	2021	2020
<b>Balance of borrowings and accrued interest at the beginning of the reporting period</b>	<b>158 938 057</b>	<b>189 303 447</b>
Receipt of loans during the reporting period	10 540 322	10 000 647
Interest accrued during the reporting period	1 753 660	2 095 746
Repayment of loans during the reporting period	(48 753 099)	(40 359 705)
Interest paid during the reporting period	(1 780 150)	(2 102 078)
<b>Balance of borrowings and accrued interest at the end of the reporting period</b>	<b>120 698 790</b>	<b>158 938 057</b>

## 28. DEFERRED INCOME

	31.12.2021	31.12.2020
Long-term portion of deferred income (EU funds and state budget funds)	250 141 983	261 261 523
Other deferred income	67 098	67 098
<b>Total non-current portion</b>	<b>250 209 081</b>	<b>261 328 621</b>
Current portion of deferred income (EU funds and state budget funds)	19 054 798	19 340 684
Other deferred income	425 576	415 229
<b>Total non-current portion</b>	<b>19 480 374</b>	<b>19 755 913</b>
<b>Total deferred income</b>	<b>269 689 455</b>	<b>281 084 534</b>

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

## Movement of EU and State budget project funds in 2021

DEFERRED INCOME	CARRYING VALUE AT 01.01.2021	RECLASSIFIED (MOVED)	FUNDS RECEIVED	REPAYMENT OF UNUSED FUNDS	DECREASE IN THE AMOUNT OF DEPRECIATION OF PPE	CARRYING VALUE 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
<b>Total</b>	<b>280 602 207</b>	<b>-</b>	<b>6 178 653</b>	<b>-</b>	<b>(17 584 079)</b>	<b>269 196 781</b>

In 2021, advance payment of EUR 2 446 251 was received from the EU funds for the project "Modernisation of the Sarkandaugava-Mangaļi-Ziemeļblāzma section of the Riga railway junction" and EUR 3 732 402 from the EU funds for the project "Modernisation of the railway passenger infrastructure".

## Movement of EU and State budget project funds in 2020

DEFERRED INCOME	CARRYING VALUE AT 01.01.2020	RECLASSIFIED (MOVED)	FUNDS RECEIVED	REPAYMENT OF UNUSED FUNDS	DECREASE IN THE AMOUNT OF DEPRECIATION OF PPE	CARRYING VALUE AT 31.12.2020
Non-current portion	274 298 372	(17 751 739)	4 714 890	-	-	261 261 523
Current portion	20 571 574	17 751 739	-	(219 434)	(18 763 195)	19 340 684
<b>Total</b>	<b>294 869 946</b>	<b>-</b>	<b>4 714 890</b>	<b>(219 434)</b>	<b>(18 763 195)</b>	<b>280 602 207</b>

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

## 29. TAXES AND COMPULSORY STATE SOCIAL INSURANCE CONTRIBUTIONS

TYPE OF TAX	(EUR)			
	TAX LIABILITIES (+) 31.12.2021	OVERPAID TAXES (-) 31.12.2021	TAX LIABILITIES (+) 31.12.2020	OVERPAID TAXES (-) 31.12.2020
Compulsory state social insurance contributions	14 142 600	-	11 476 533	-
Personal income tax	5 713 954	-	4 341 942	-
including in Belarus	-	-	540	-
Real estate tax	-	-	-	(55)
Natural resource tax	10 336	-	6 567	-
Value added tax	5 418 893	-	4 356 230	-
Vehicle usage tax	157	-	-	-
Company car tax	31	-	-	-
Business risk duty	1 509	-	1 754	-
Duty for numbering rights use	5	-	-	-
Balance in the single tax account	-	(2 733)	-	-
<b>Total</b>	<b>25 287 485*</b>	<b>(2 733)</b>	<b>20 183 026</b>	<b>(55)</b>

\* Non-current liabilities EUR 19 437 751, current liabilities EUR 5 849 734

*Latvijas dzelzceļš* had no delayed tax payments as of 31.12.2021. The balance in income tax, compulsory state social insurance contributions and VAT is related to the fact that in an emergency situation, the State Revenue Service granted Latvian Railways a three-year extension of the payment deadline for these taxes for April, May, June, July and December of 2020, with the first payment due in December 2022.

## 30. FINANCIAL RISK MANAGEMENT

The *Company's* principal financial instruments are borrowings from banks, other borrowings, cash, and accounts receivable and payable. The main purpose of these financial instruments is to provide financing for the *Company's* operations. The *Company* also has a number of other financial assets and liabilities, such as trade receivables and trade payables due from suppliers and contractors, which arise directly from the *Company's* operations.

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

**The *Company's* financial instruments are divided into the following categories:**

	(EUR)	
	31.12.2021	31.12.2020
<b>Financial assets at amortised cost</b>		
Trade and other receivables, excluding advances	77 044 380	61 679 442
Cash and cash equivalents	36 098 259	59 301 731
<b>Financial assets at fair value with revaluation through profit or loss account</b>		
Long-term financial investments	84 108	84 108
<b>Total financial assets</b>	<b>113 226 747</b>	<b>121 065 281</b>
<b>Financial liabilities at amortised cost</b>		
Borrowings from credit institutions	120 615 523	158 828 300
Trade and other payables, including lease liabilities, excluding advances (including the non-current portion)	28 421 683	28 062 705
<b>Total financial liabilities</b>	<b>149 037 206</b>	<b>186 891 005</b>

### Market risk

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

### Interest rate risk

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

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

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

### Interest rate sensitivity

The following table shows the sensitivity of the *Company's* profit before tax to reasonably possible changes in interest rates at the end of each reporting period, with all other variables held constant. The *Company's* equity, except for the result of the reporting year, is not affected.

	2021		2020	
	BASE RATE INCREASE/ DECREASE (BASE POINTS)	IMPACT ON PROFIT BEFORE TAX (EUR)	BASE RATE INCREASE/ DECREASE (BASE POINTS)	IMPACT ON PROFIT BEFORE TAX (EUR)
EURIBOR	(+100)	(1 206 155)	(+100)	(1 588 283)
	(-100)	1 206 155	(-100)	1 588 283

### Currency risk

Currency risk is the risk of loss resulting from adverse changes in foreign exchange rates in relation to assets and liabilities denominated in foreign currencies. The currency risk to which the *Company* is exposed arises primarily from its operations - revenues and expenses are denominated in currencies other than foreign currency loans. The *Company's* trade receivables and liabilities to banks are mainly denominated in euros. For a detailed breakdown of financial instruments by currency, please refer to Note 33.

The main currency risk management tool used by the *Company* is the recognition and use of foreign currency funds to settle 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* had no significant foreign currency balances during the reporting year, so the potential impact of exchange rate fluctuations was insignificant.

### Credit risk

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

### Trade receivables

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

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

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

As at 31 December 2021, the Company had 3 customers (in 2020 also 3 customers), each of owing the Company more than EUR 700 thousand and accounting for about 96.4% (90.9% in 2020) of total receivables. Excluding receivables from subsidiaries that have not yet matured on 31 December 2021, receivables of more than EUR 700 thousand were due from two customers accounted for 86.5% of total receivables.

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

In 2021, there were no material changes in expected credit losses related to trade receivables.

Trade receivables are written off only if they are not expected to be recovered. Indicators of non-recovery include, but are not limited to, the debtor's inability to agree on a repayment schedule, supplemented by the debtor's insolvency, bankruptcy, or liquidation.

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

	(EUR)	
	AT 31.12.2021	AT 31.12.2020
Cash and cash equivalents	36 098 259	59 301 731
Trade and other receivables (gross amount), excluding advances and prepayments	78 191 634	63 128 968
<b>Total</b>	<b>114 289 893</b>	<b>122 430 699</b>

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

	(EUR)				
	Not overdue	Overdue by more than 30 days	Overdue by more than 90 days	Overdue by more than 120 days	Total
Expected credit loss rate	0,51%	2,00%	11,00%	95,00%	
Loans to affiliated companies	29 724 100	-	-	-	<b>29 724 100</b>
Trade and other receivables (gross amount)	47 654 544	16 116	1 155	795 719	<b>48 467 534</b>
Expected credit losses	(390 871)	(322)	(127)	(755 934)	<b>(1 147 254)</b>

**Expected credit losses as at 31 December 2020 are determined by applying the following expected credit loss rates:**

	(EUR)				
	Not overdue	Overdue by more than 30 days	Overdue by more than 90 days	Overdue by more than 120 days	Total
The expected credit loss rate	1,20%	2,00%	11,00%	95,00%	
Loans to affiliated companies	43 637 613	-	-	-	<b>43 637 613</b>
Trade and other receivables (gross amount)	18 717 823	25 954	8 981	738 597	<b>19 491 355</b>
Expected credit losses	(746 353)	(519)	(988)	(701 666)	<b>(1 449 526)</b>

### Cash deposits

The credit risk arising from the *Company's* cash deposits with banks is managed by the *Company's* treasury department in accordance with the *Group's* financial management policy. Under this policy, the *Company's* unrestricted funds may only be invested in deposits or money market funds. Before investing funds with banks (deposits or current accounts), the *Company's* Finance Department checks the creditworthiness of the banks and the interest rates offered.

The *Company's* cash balances with banks and their corresponding credit ratings assigned by Moody's:

	(EUR)	
CREDIT RATING	31.12.2021	31.12.2020
Aa2	-	365
Aa3	9 584 594	3 081
A3	5 996 791	51 616 531
Without rating*	20 516 679	7 681 577
<b>Total</b>	<b>36 098 064</b>	<b>59 301 554</b>

\* No ratings are assigned to the State Treasury and SJSC Latvijas pasts (a state-owned enterprise).

### Liquidity risk

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

The *Company's* finance department manages liquidity risk by maintaining adequate cash reserves and providing sufficient funding through loans, credit lines, leases, etc., as well as constantly monitoring the forecast and actual cash flows and matching the maturity structure of financial assets and liabilities.

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

The result of economic activity in 2021 is nil, as *Latvijas dzelzceļš* has the right to receive funding for ensuring the financial balance of the state operator of the publicly used railroad infrastructure, which is specified in the legal regulations.

As at 31 December 2021, the *Company's* current assets exceed its current liabilities by EUR 16,929 thousand. Current liabilities include deferred income of EUR 19,055 thousand related to the investment of EU projects and state budget funds in public rail infrastructure, which are gradually written off and recognised as revenues, there is therefore a low risk that financial resources will be required to cover these liabilities. The total liquidity ratio is 1.22, but excluding short-term liabilities, future revenues related to EU projects and state budget investments in public railway infrastructure, it is 1.61. The *Company's* cash flows from operating activities are positive. In view of the above circumstances, we believe that the *Company* is financially sound and able to cover its current payments.

The concluded loan agreements with banks specify the financial covenants that *Latvijas dzelzceļš* must comply with during the term of the agreement. As at 31 December 2020, 31 December 2021 and the beginning of 2022, none of the non-current borrowings had breach of covenants.

The following tables provide information on the *Company's* financial liabilities by maturity, based on the undiscounted amounts of financial liabilities specified in the agreements, including interest payments:

	(EUR)				
AT 31 DECEMBER 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, payables to suppliers and contractors, and other creditors)	15 354 750	7 020 101	4 869 715	1 404 758	28 649 324
<b>Total</b>	<b>26 765 485</b>	<b>26 986 353</b>	<b>91 021 376</b>	<b>8 026 106</b>	<b>152 799 320</b>

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

### 31. 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 is obtained from independent sources. If no market data is observable, the valuation technique reflects the *Company's* assumptions about the market situation.

This hierarchy requires the use of observable market data whenever available. When remeasuring, the *Company* considers relevant observable market prices whenever possible.

Fair value - the amount that would be received to sell an asset or paid to settle a liability in the normal course of business between market participants at the measurement date of the asset or liability.

The objective of determining fair value is to establish, even if the market is not active, the transaction price at which market participants would be willing to sell the asset or incur 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 data and are based on internal models. Based on the fair value hierarchy, all valuation techniques are divided 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 in the fair value hierarchy takes place in two stages:

1. Classify data at each level to determine the fair value hierarchy;
2. Classify the financial instrument itself on the basis of the lowest level if a significant proportion of its value is derived from lower-level data.

#### Quoted market prices - Level 1

Level 1 valuation techniques use unadjusted quoted prices in an active market for identical assets or liabilities where quoted prices are readily available, and the price represents the actual market situation for transactions in conditions of fair competition. The *Company* has no Level 1 financial instruments.

#### Valuation techniques using market data - Level 2

In the models used in Level 2 valuation techniques, all material data, directly or indirectly, are observable from the asset or liability side. The model uses market data that is not a quoted price included in Level 1, but that is observable directly (i.e., price) or indirectly (i.e., derived from price).

The *Company's* cash and cash equivalents correspond to the Level 2 fair value hierarchy.

#### Valuation techniques using market data that are not based on observable market data - Level 3

Valuation techniques that use market data that are not based on observable market data (unobservable market data) are classified in Level 3. Unobservable market data is data that is not readily available in an active market due to the complexity of an illiquid market or financial instrument. Level 3 data are generally determined based on observable market data of a similar nature, historical observations, or analytical approaches.

All of the *Company's* financial instruments, with the exception of cash and cash equivalents, correspond to the Level 3 valuation methods.

### Assets and liabilities, for which fair value should be disclosed

The carrying amounts of liquid and current financial instruments (maturity not exceeding three months), such as cash and cash equivalents, short-term deposits, current receivables, and trade payables, approximate their fair values.

The fair value of borrowings from banks, lease obligations, and other non-current liabilities is determined by discounting future cash flows at market interest rates. As the interest rates on borrowings from banks, finance lease obligations, and other non-current liabilities are generally volatile and do not differ significantly from market interest rates, and the risk premium applicable to the entity has not changed significantly, the fair value of non-current liabilities approximates their carrying amount.

## 32. CAPITAL MANAGEMENT

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

The *Company's* objectives in terms of capital management are to ensure the continuation of the *Company* as a going concern and to achieve a return on capital determined by the shareholder meeting. The Latvian state, as the sole owner of the *Company's* capital, has the right to make decisions on the increase or decrease of share capital, payment of dividends, or reallocation of the *Company's* retained earnings for the development of the *Company*.

As part of capital management, the *Company* evaluates the ratio of debt to total capital. The *Company's* financial risk management policy does not set a minimum or maximum amount for this indicator. The loan agreements concluded with the banks specify the financial ratios that the *Company* must comply with during the term of the agreement. If the ratios are not met, the *Company* receives letters from the banks when preparing the annual report that the lender will not require repayment in the earliest period. When preparing the short- and long-term financial plan and budget, the *Company* takes into account the financial conditions set by the banks in terms of the ratio of borrowed capital to total capital.

(EUR)

	31.12.2021	AT 31.12.2020
Borrowings from credit institutions and other borrowings	120 615 523	158 828 300
Trade payable (including taxes)	53 755 710	48 299 367
Other liabilities	270 717 008	281 333 242
<b>Total liabilities</b>	<b>445 088 241</b>	<b>488 460 909</b>
Share capital	351 235 052	351 235 052
<b>Total liabilities and equity</b>	<b>796 323 293</b>	<b>839 695 961</b>
Debt-to-equity ratio	56%	58%
Equity-to-total-debt ratio	79%	72%

## 33. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY CURRENCY

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

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
<b>Total financial assets</b>	<b>108 028 469</b>	<b>3 121</b>	<b>5 111 049</b>	<b>113 142 639</b>
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
<b>Total financial liabilities</b>	<b>147 564 179</b>	<b>4</b>	<b>1 473 023</b>	<b>149 037 206</b>

AT 31 DECEMBER 2020	EUR	USD EUR	CHF AND OTHER CURRENCIES EUR	TOTAL EUR
Trade and other receivables, excluding advances	61 524 879	-	154 563	61 679 442
Cash and cash equivalents	57 925 648	1 688	1 374 395	59 301 731
<b>Total financial assets</b>	<b>119 450 527</b>	<b>1 688</b>	<b>1 528 958</b>	<b>120 981 173</b>
Borrowings from credit institutions	158 828 300	-	-	158 828 300
Trade and other payables, excluding advances.	26 045 650	1 260	2 015 795	28 062 705
<b>Total financial liabilities</b>	<b>184 873 950</b>	<b>1 260</b>	<b>2 015 795</b>	<b>186 891 005</b>

### 34. CAPITAL COMMITMENTS

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

NAME OF THE BUSINESS PARTNER, SUBJECT OF THE AGREEMENT	DATE OF CONTRACT	TERM OF CONTRACT PERFORMANCE	CONTRACT AMOUNT IN EUR
General partnership "BMGS - FIMA" Construction of elevated platforms on the railway line Riga-Jelgava	29.07.2021	29.12.2023	4 892 911
General partnership "BMGS - FIMA" Construction of elevated platforms on the railway line Riga-Tukums II	29.07.2021	31.12.2023	5 394 040
General partnership "BMGS - FIMA" Construction of elevated platforms on the railway line Riga-Krustpils	29.07.2021	31.12.2023	8 872 174
General partnership "BMGS - FIMA" Construction of elevated platforms on the railway line Zemitāni-Skulte (Kalngale-Skulte)	29.07.2021	29.12.2023	6 832 740
General partnership "BMGS - FIMA" Construction of elevated platforms on the railway line Zemitāni-Skulte (Zemitāni-Vecāķi, Alfa)	30.07.2021	31.12.2023	6 929 832
SIA "BELAM-RĪGA" Renovation of equipment of traction substations "Sloka" in Vecāķi, Salaspils and Olaine	08.10.2021	22.09.2022	1 327 372

The most significant approved transactions, for which agreements were not yet concluded in the reporting year:

NAME OF THE BUSINESS PARTNER, THE SUBJECT OF THE AGREEMENT	TYPE OF PROCUREMENT PROCEDURE DATE OF CONTRACT	TERM OF CONTRACT PERFORMANCE	CONTRACT AMOUNT IN EUR
SIA "Firma L4" Modernization of railway passenger infrastructure: construction supervision	Open competition 07.07.2021	31.03.2026	1 174 180

**Construction of property, plant and equipment and costs of construction in progress**

(EUR)

UNFINISHED CONSTRUCTION NAME OF OBJECTS	BALANCE OF CONSTRUCTION IN PROGRESS AS OF 31.12.2021	PLANNED COSTS IN 2021	EXPECTED TO BE PUT IN OPERATION
Modernisation of the Sarkandaugava-Mangalī-Ziemeļblāzma junction in Riga railway section	1 472 757	18 916 025	2023
Overhead contact line and power system restoration	535 423	1 739 100	2022
Introduction of digital radio communications	518 341	4 350 000	2023
IT technology development	316 636	930 000	2022
Overhaul of railway technological buildings and external engineering networks, replacement of heating systems	308 596	955 000	2022
(CINEA) Replacement of APOVS and establishment of OPVS	214 539	614 608	2024
Safety measures to reduce the risk of rail accidents at level crossings and pedestrian crossings	159 490	85 000	2022
Other projects	225 259	21 310 000	2022-2024
<b>Total</b>	<b>3 751 041</b>	<b>48 899 733</b>	<b>x</b>

**35. CONTINGENT TAX LIABILITIES**

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

**36. FUTURE LEASE INCOME**

Operating lease income in 2021 is EUR 3 389 677. Operating lease income in the period from 1 to 5 years is expected to be at the level of 2021.

**37. NUMBER OF EMPLOYEES**

The average number of employees at the Company in 2021 is 4 526 (5 322 in 2020).

**38. RELATED PARTY TRANSACTIONS**

The *Company* has transactions with the Ministry of Transport (100% shareholder of the *Company*) and other state-owned companies. The largest transactions are with AS "Pasažieru vilciens" (fee for the service package for minimum access, electricity distribution and trading, rent of premises, purchase of subscription cards) for EUR 13 743 thousand (in 2020 – EUR 13 526 thousand) and VAS Latvenergo (purchase of electricity) for EUR 8 566 thousand (in 2020 – EUR 9 698 thousand). Reciprocal transactions relate to the principal activities of the parties concerned.

## Transactions with subsidiaries

(EUR)

COUNTERPARTY	2021		2020	
	GOODS/ SERVICES SOLD/ PROVIDED	BOUGHT/ RECEIVED	GOODS/ SERVICES SOLD/ PROVIDED	BOUGHT/ RECEIVED
SIA LDZ CARGO	68 706 151	8 413 016	73 889 943	8 286 103
SIA LDZ ritošā sastāva serviss	3 365 851	2 401 943	2 633 600	2 395 038
SIA LDZ infrastruktūra	538 359	1 441 074	974 382	2 710 440
SIA LDZ apsardze	475 552	4 392 824	356 804	5 017 491
AS LatRailNet	142 845	-	110 001	-
SIA LDZ Loģistika	300 652	60 750	346 352	-
SIA Rīgas Vagonbūves uzņēmums "Baltija"	3 353	-	3 360	-
<b>Total</b>	<b>73 532 763</b>	<b>16 709 607</b>	<b>78 314 442</b>	<b>18 409 072</b>

## Receivables from related parties:

(EUR)

SUBSIDIARY	31.12.2021	At 31.12.2020
<b>Current receivables</b>		
SIA LDZ CARGO	4 688 124	6 201 689
SIA LDZ ritošā sastāva serviss	5 799 837	4 838 465
SIA LDZ infrastruktūra	16 197	87 701
SIA LDZ apsardze	33 462	33 827
AS LatRailNet	6 726	7 883
SIA LDZ Loģistika	27 800	29 413
SIA Rīgas Vagonbūves uzņēmums "Baltija"	331	329
<b>Total</b>	<b>10 572 477</b>	<b>11 199 307</b>
<i>of which formed in December of the reporting year</i>	<i>5 055 985</i>	<i>6 576 576</i>
<b>Long-term loans</b>		
SIA LDZ ritošā sastāva serviss	23 826 503	38 811 049

## Payables to related parties:

(EUR)

SUBSIDIARY	31.12.2021	At 31.12.2020
SIA LDZ CARGO	1 347 045	1 126 425
SIA LDZ apsardze	811 391	629 685
SIA LDZ ritošā sastāva serviss	482 854	230 519
SIA LDZ infrastruktūra	80 089	520 330
SIA LDZ Loģistika	13 250	-
<b>Total*</b>	<b>2 734 629</b>	<b>2 506 959</b>
<i>of which formed in December of the reporting year</i>	<i>2 221 109</i>	<i>1 777 468</i>
* incl. lease liabilities to related companies	49 928	369 582
- non-current liabilities	16 438	168 269
- current liabilities	33 490	201 313

### 39. COVID-19 AND GOING CONCERN

Trends in freight transport in 2020 and 2021, as well as current events that could shake the global and regional economies, including the Covid-19 coronavirus pandemic, suggest that freight transportation volumes will not improve significantly. In 2021, there was a significant decline in freight, and the Covid 19 pandemic also had an additional negative impact on the *Company's* business. Due to the virus, face-to-face meetings had to be curtailed and remote work had to be kept to a maximum for the administration staff, with international passenger traffic being completely suspended. It is possible that the restrictions imposed by Covid-19 also had an additional negative effect on freight volumes.

The draft and action plan *Latvijas dzelzceļš* strategy was approved on 05.07.2021 by decision No.VL-34/240 of *Latvijas dzelzceļš* Board and approved by the *Latvijas dzelzceļš* Council Decision No. PA1.2./8-6 of 14.07.2021.

With the Cabinet of Ministers Decree No. 421 of 16.06.2021 the general strategic objective of *Latvian Railways* is approved with the following wording: "To ensure efficient, safe and sustainable management of railroad infrastructure and competitive offer in the areas of logistics, repair, and maintenance of railroad vehicles, security services for strategically important objects and promotion of environmentally friendly railroad transport".

VAS *Latvijas dzelzceļš* "Concept of Infrastructure Development 2021 - 2035" was developed in 2021, approved by the Board decision No. VL -9/95 of 1 March 2021 and accepted by the Council resolution No. PA 1.2.13-13 of 18 March 2021. This document contains the current description of infrastructure and related aspects of the *Company's* operations and outlines the vision of strategic development of *Latvijas dzelzceļš* and its main directions. The vision is directly incorporated into the medium-term operational strategy of *Latvijas dzelzceļš*, projects aimed at the development and modernization of infrastructure, and other documents.

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

According to the Multi-Annual Agreement, SJSC *Latvijas dzelzceļš* will need additional funds from the state budget in 2022 to ensure the financial balance of the *Company*. *Latvijas dzelzceļš* also needs additional financial resources to fully offset the ineligible costs of providing passenger services under the public service contract by 2022.

Although the required financial stability payment has been fully recognised as revenue, there is uncertainty about the time required for the *Company* to obtain additional funding. This uncertainty relates both to the funds to fully offset the costs of maintenance and renewal of railroad infrastructure for the provision of public transport services in 2022 in accordance with the requirements of the Multi-Annual Agreement, and to the funds to ensure the financial balance of *Latvijas dzelzceļš*.

Despite this uncertainty, the management of *Latvijas dzelzceļš* believes that the going concern principle is applicable based on the approval of the strategy and action plan for *Latvijas dzelzceļš* with the implementation of the new business model of the *Group* and the review of organizational and technological processes that will reduce costs in the future. The main task of *Latvijas dzelzceļš* is to ensure the management of the state public railroad infrastructure and safe, high-quality, and efficient railroad and logistics services in the interests of the state, society and the Latvian economy, therefore, we believe that there will be no delay in complying with the terms of the Multi-Annual Agreement. Consequently, the financial statements have been prepared on a going concern basis and have not been restated, including the revaluation of assets and liabilities that might have been required if the going concern basis had not been applied.

#### 40. EVENTS AFTER THE REPORTING YEAR

No events have occurred in the period since the last day of the reporting year that would have a material effect on the *Company's* financial position as of 31 December 2021.

On 24 February 2022, the war was escalated in Ukraine, resulting in extensive economic and political sanctions against Russia and Belarus. These events are non-adjusting events after the end of the reporting year.

Given the *Company's* cooperation with Russian and Belarusian partners, as well as the specifics of its operations, these events will undoubtedly have an impact on the *Company's* operations in 2022 and beyond. The restrictions in force so far do not cause significant immediate losses to the *Group* and do not endanger the *Company's* ability to continue as going concern:

1) In order to mitigate the risks associated with the current sanctions against financial institutions, we have identified all the *Company's* customers and partners with current accounts in the financial institutions included in the sanctions lists, contacting these customers and requesting to change the settlement bank, otherwise terminating cooperation.

2) Assessing the risks associated with the updated lists of sectoral sanctions, the *Company* strengthened its cargo inspection procedures by assessing the types of cargo and their compliance with the established sectoral sanctions.

3) All persons included in the lists of sanctions are reflected in the information system (IS) Sanctions maintained by the *Company*, which ensures daily automatic verification of the compliance of all customers and business partners with the lists of authorized persons. IS Sanctions lists are updated daily by automatically contacting the official websites that maintain information about the sanctions of the Republic of Latvia, the European Union, the UN and OFAC.

The *Company's* management is aware of the uncertainties related to the further development of the situation and will continue to monitor the development of events on a daily basis, as well as their potential impact on the *Company's* operations.

Riga, see the date on the time stamp

Chairman of the Board

M.Kleinbergs

Member of the Board

V.Balode-Andrūsa

Member of the Board

R.Plavnieks

The annual report was prepared by the Finance Department  
of VAS *Latvijas dzelzceļš*:  
Finance Director

R.Razums

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



## Independent Auditor's Report

To the Shareholder of VAS "Latvijas dzelzceļš"

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### Our opinion

In our opinion, the accompanying financial statements set out on pages 12 to 56 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 2021, and the Company's financial performance and cash flows for the year ended 31 December 2021 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 2021,
- the statement of financial position as at 31 December 2021,
- the statement of changes in equity for the year ended 31 December 2021,
- the statement of cash flows for the year ended 31 December 2021, and
- the notes to the financial statements which include significant accounting policies and other explanatory information.

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### 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.

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### Reporting on Other Information Including the Management Report

Management is responsible for the other information. The other information comprises the Management Report, as set out on pages 3 to 11 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.

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

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

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### 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.

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

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

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

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

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

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

PricewaterhouseCoopers SIA  
Certified audit company  
Licence No. 5

Ilandra Lejiņa  
Certified auditor in charge  
Certificate No.168

Member of the Board

Riga, Latvia  
8 March 2022

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

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