APPROVED

by Resolution No. A1.1/3-1 of the Minutes of the Shareholders' Meeting of SJSC Latvijas dzelzceļš of 19.05.2025

State joint stock company "Latvijas dzelzceļš"

Annual Report for 2024

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

MANAGEMENT REPORT

ON THE ECONOMIC ACTIVITY OF SJSC LATVIJAS DZELZCEĻŠ IN 2024

DESCRIPTION OF STATE JOINT STOCK COMPANY LATVIJAS DZELZCELS

State Joint Stock Company Latvijas dzelzcels (hereinafter also referred to as "LDz" or "the Company") is one of the largest companies in Latvia which through its economic activities makes a significant contribution to the national economy by ensuring the use of railway infrastructure for passenger and freight transport.

The share capital of LDz as at 31 December 2024 amounts to EUR 374 420 thousand and is comprised of 374 419 791 shares. All shares are held by the Republic of Latvia and are fully paid up. The holder of the state shares is the Ministry of Transport. In 2024, the share capital was increased in accordance with the Cabinet of Ministers Order No 1120 of 17 December 2024 *On Increasing the Share Capital of the State Joint Stock Company Latvijas dzelzceļš* by investing state budget funds in the amount of EUR 46 798 thousand to ensure the financial stability of the state public use railway infrastructure operator (SJSC Latvijas dzelzceļš) for 2022 (the uncovered part) and 2023.

The main objective of LDz is to ensure the management of the state public-use railway infrastructure and safe, high-quality and efficient railway services in the interests of the state and the Latvian national economy. As the operator of the railway infrastructure in public use, LDz owns, as at 31 December 2024, a rail network with an extended length of 3 176.76 km, including technologically connected station tracks and sidings, as well as other infrastructure facilities.

LDz is the parent company of the Latvijas Dzelzceļš Group (hereinafter also referred to as "the Group"). The Group consists of the parent company and five subsidiaries, which together provide customers with a wide range of railway services.

Latvijas dzelzceļš provides services referred to in the Section 12^1, Paragraph 1 of the Railway Law, i.e. the public-use railway minimum access service package and access to the public-use railway infrastructure connecting it with the service points, as well as freight wagon sorting and assembly, wagon technical maintenance and inspection services, electricity distribution and trade services, rental services, information technology services, electronic communication services, as well as other services. LDz, as a customs cooperation partner contributing to the prevention of customs risks, has been granted the status of authorised economic operator, authorised consignee, and authorised consignor, and has been granted a general guarantee permit - an exemption from filing general guarantee.

SIA LDZ CARGO carries out freight transport in Latvia and Estonia. SIA LDZ CARGO provides international and domestic freight transportation services, including hazardous and oversized freights, and provides other services related to rail freight transportation. The company transports almost all types of goods listed in the Harmonised Commodity Nomenclature (HCN) in containers and wagons. The company also provides traction services and wagon rental services. SIA LDZ CARGO has a registered branch in Estonia since 2023.

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

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

SIA LDZ apsardze provides physical security services for various objects and railway cargoes, designs and assembles various security, fire safety, and video surveillance systems, which are subject to technical maintenance and maintenance during operation, as well as monitor the received alarm signals.

AS LatRailNet provides the following essential functions of LDz: decision-making on capacity allocation, allocation of train paths, including both access determination and assessment and allocation of individual train paths; decision-making on infrastructure charges, including determination of charges and collection; as well as other functions that are delegated by legislation to the infrastructure operator performing essential functions.

Since 2016, LDz has been preparing a Sustainability Statement to improve good corporate governance practices and develop awareness of social responsibility within the Group, as well as to strengthen sustainable yet innovative thinking in the tradition-rich railway sector. For 2024, LDz, as the Group's parent company, has prepared a consolidated sustainability statement. It is included in LDz's consolidated annual report for 2024.

The Group's companies also participate annually in the Sustainability Index assessment organised by the Institute of Corporate Sustainability and Responsibility to assess their performance in terms of sustainability. In 2024, the Group companies SJSC Latvijas dzelzceļš, SIA LDZ ritošā sastāva serviss, SIA LDZ apsardze, participating jointly, managed to achieve a platinum rating in the Sustainability Index assessment organised by the Institute of Corporate Sustainability and Responsibility. SIA LDZ CARGO, which took part in the index assessment separately, has also been awarded a platinum rating.

In 2024, the average number of staff was 3 676, which was 269 employees less compared to 2023. The number of employees has been reduced as a result of targeted measures implemented by LDz in 2024 to optimise the number of employees and costs, through a review of functions and changes in the organisational structure.

In 2024, the Group had an average workforce of 5 742 employees, which was 477 employees less compared to 2023.

OPERATING PERFORMANCE

The most important indicator of LDz's performance is the number of km travelled by trains, which is the basis for calculating infrastructure user charges and determines infrastructure depreciation.

In 2024, LDz public use infrastructure was used to transport 19 445 thousand passengers by 7 608 thousand train-km (including 48.4 thousand train-km by SIA Gulbenes-Alūksnes bānītis and 56.2 thousand train-km by UAB LTG Link) and 11 467 thousand tonnes of freight by 2 509 thousand train-km.

In 2024, the number of train-km (including technological train-km, but excluding train-km performed by LDz for its own needs) has increased by 3.6% compared to 2023, including 16.3% in passenger transport, while in freight transport the number of train-km has decreased by 22.2%.

In 2024, the number of passengers carried by JSC Pasažieru vilciens on the broad-gauge railway lines reached 19 445 thousand, an increase of 13.5% compared to the previous year.

The volume of freight transported in 2024 is 11 467 thousand tonnes, which is 4 169 thousand tonnes or 26.7% less than in 2023, when 15 636 thousand tonnes were transported.

Imports constituted the majority of freight transportation, representing 62.0% of the total freight volume. Its volume in 2024 was 7,111 thousand tons, which is a 26.2% decrease compared to the previous year.

LDz's business activities since March 2022 have been significantly affected by external factors related to changes in the geopolitical situation and international economic sanctions imposed against Russia and Belarus as a result of the hostilities in Ukraine.

In 2024, the most significant share of transport is accounted for by grain, grain processed products, seeds, and fruit (43.1%) and oil and petroleum products (19.2%). The share of fertiliser transport in the total transport volume is 5.3%, that of wood and wood products is 3.5% and that of coal is 1.3%, the share of other cargoes is 27.6%.

In 2024, the Company will continue to work on the priorities set in the previous years – improving operational efficiency, reviewing business, organisational and technological processes in order to increase the efficiency of the Group's business operations and reduce costs, as well as to ensure the Group's competitive and sustainable operations in the future.

LDz ensures compliance with Regulation No 01-02/60 of the Ministry of Transport of 9 December 2022 *Procedure for monitoring the implementation of financial stability of the operator of the public railway infrastructure*.

In 2024, net sales amount to EUR 155 101 thousand, which is EUR 10 309 thousand or 6.2% less than in 2023.

The operating result for 2024 is a loss of EUR 32 847 thousand, significantly affected by a EUR 31 213 thousand impairment of net assets for property, plant and equipment. Impairment was recognised for the infrastructure used exclusively for freight transportation, especially on those sections of railway track where there was a significant drop in traffic. As a result of the economic activity, the funds required to ensure the financial stability of the national public railway infrastructure operator, as laid down in national legislation, amounting to EUR 26 013 thousand ("the Financial Stability compensation") have been recognised in 2024. The Financial Stability compensation has been recognised following the guidelines of the IFRS Accounting Standards and in the amount provided for in Section 73 of the law *On the State Budget for 2025 and Budget Framework for 2025, 2026, and 2027*. The request for Financial Stability compensation disbursement will be made after approval of the annual report of LDz in accordance with the procedure set out in Section 9(4) of the *Railway Law*.

According to the Order of the Ministry of Transport No 01-03/10 of 08.01.2024 *On subsidy to SJSC Latvijas dzelzceļš for compensation of the costs of the minimum access service package and maintenance of service points 2024 - 2024*, for the minimum access service package and access to the infrastructure connecting the infrastructure with the service points, including passenger stations where passenger traffic is interrupted, the state budget funding of EUR 50 474 thousand was allocated to the operator of the public railway infrastructure for the financial stability of the passenger transport segment and EUR 198 thousand for the maintenance of the unused service points. In addition to the above-mentioned funds necessary for the financial stability of the State public railway infrastructure operator, the net turnover in 2024 includes State budget funding (subsidy) of EUR 50 672 thousand.

On 31 December 2024, the current assets of LDz exceed its current liabilities by EUR 18 488 thousand. The total liquidity ratio is 1.2. Current liabilities include deferred income of EUR 13 754 thousand related to the EU project and state budget fund investments in railway public infrastructure. Excluding deferred income related to investments in public railway infrastructure by EU projects and state budget funds, the liquidity ratio is 1.5. As at 31 December 2024, and early 2025, no borrowings were in default.

Debt-to-assets (total liabilities / assets) at 31.12.2024 is 0.6. The main criterion for assessing the level of liabilities is the level of financial risk. The risk is influenced by the sources and types of financing of the assets: as the share of borrowed capital in the liabilities of the balance sheet increases, so does the level of financial risk. Liabilities include deferred income related to the EU project and state budget fund investments in railway public infrastructure. Excluding deferred income related to the investment of EU projects and state budget funds, the liability ratio on the balance sheet is 0.2. In assessing the financial ratios, it should be noted that co-financing received from European Community funds and the State for EU investment projects is shown in the balance sheet liability *Deferred income* and written off against the current year's depreciation of established items in the Statement of Comprehensive Income under *Other income*, with depreciation of items included under *Depreciation, amortisation and impairment*.

Despite the decline in freight traffic, LDz continues to ensure the quality and safety of its infrastructure and services, and the total amount of LDz's capital expenditure in 2024 is EUR 58 873 thousand, of which:

- EUR 17 213 thousand were invested in restoration, of which
  - EUR 15 011 thousand were invested in capital repairs,
  - EUR 1 492 thousand were invested in renewal of the existing IT systems
  - EUR 710 thousand were spent during the reporting period to purchase technological equipment for track repair and maintenance as well as equipment for further development of information systems and communication tools and intangible assets;
- EUR 41 660 thousand were invested in infrastructure development, of which
  - EUR 1 863 thousand in introduction of innovative technologies,
  - EUR 39 797 thousand in other development.

Construction in progress includes materials purchased for investment projects amounting to EUR 1 070 thousand.

In 2024, the Company did not incur any costs related to research and development activities.

OBJECTIVES AND FUTURE DEVELOPMENT

The Strategy and Action Plan of LDz was accepted by the Decision of the Board of LDz No VL-34/240 of 5 July 2021 and approved by the Decision of the Council of LDz No PA1.2./8-6 of 14 July 2021.

Under Cabinet Order No. 421 of 06.06.2021, the general strategic objective of VAS Latvijas dzelzceļš was approved in the following wording: "*To ensure efficient, safe and sustainable management of railway infrastructure, offering also competitive logistics, railway rolling stock repair and maintenance services, security services of strategically important objects, promoting the development of environmentally friendly rail transport*".

In 2021, the Infrastructure Development Concept for 2021-2035 was developed and approved under Board Decision No. VL-9/95 dated 1 March 2021 and accepted for information under the Council Decision No. PA 1.2./13-13 of 18 March 2021. It provides an overview of the infrastructure and related aspects of the company's operations and outlines the strategic development vision and main directions of LDz, which are directly reflected in the developed medium-term operational strategy of LDz, the projects aimed at infrastructure development and modernisation and in other documents.

SJSC Latvijas dzelzceļš actively participates in the drafting of the Indicative Railway Infrastructure Development Plan at the Ministry of Transport. The Indicative Plan is also a precondition for the availability of EU funds 2021-2027 for railway infrastructure projects. In 2024, the issue of the approval of the Indicative Railway Infrastructure Management Plan by the Cabinet of Ministers was not resolved, it is planned to approve it during 2025.

SJSC Latvijas dzelzceļš makes significant investments in the modernisation and development of railway infrastructure with the support of EU funds.

As part of the measure 6.2.1.2. *Modernisation and construction of railway infrastructure* of the specific support objective 6.2.1 *Ensure a competitive and environmentally friendly TEN-T rail network by enhancing its safety, quality, and capacity* of the priority axis *Sustainable Transport System* of the Operational Programme *Growth and Employment* for the 2014-2020 EU Funds Programming Period, construction works in the project *Modernisation of Riga railway junction Sarkandaugava - Mangaļi - Ziemeļblāzma* were completed on 15 December 2023. On 20 June 2024, a confirmation was received from the Central Finance and Contracting Agency that the implementation of the European Union Fund project No 6.2.1.2/16/I/001 *Modernisation of Riga railway junction section Sarkandaugava-Mangaļi-Ziemelblāzma* has been completed. The project has increased throughput, built second tracks on the Mangaļi-Ziemelblāzma section, modernised the signalling system and improved safety by building two-level pedestrian crossings. The objectives of the project have been fully achieved.

The geopolitical situation, coordination of technical solutions with third parties, and other unforeseeable circumstances had a significant impact on meeting the construction deadlines in the projects *Modernisation of railway passenger infrastructure* and *Modernisation of railway infrastructure to increase train speed*.

Due to these circumstances, the deadlines of the contracts concluded within the projects were extended and the projects are being phased out between the two programming periods of the EU funds, i.e., the 2014-2020 and 2021-2027 programming periods, in accordance with paragraph 4 of the 19 December 2023 Amendments to the Regulations of the Cabinet of Ministers of 21 June 2016 No. 404 *Rules for the implementation of the Operational Programme Growth and Employment, priority axis Sustainable transport system*, specific support objective 6.2.1 *Ensuring a competitive and environmentally friendly TEN-T railway network by promoting its safety, quality and capacity*, measure 6.2.1.2 *Modernisation and construction of railway infrastructure*.

On 14 October 2024, the *Contract for Implementation of the European Union Fund Project No 3.1.1.3/1/24/I/001 – Modernisation of Railway Passenger Infrastructure, Stage 2* was signed with the Central Finance and Contracting Agency, setting the project implementation period to 31 December 2026 at the latest. By the end of 2024, 31 railway stations and stops were temporarily put into operation.

On 14 October 2024, the *Contract for Implementation of the European Union Fund Project No 3.1.1.3/1/24/I/002 – Modernisation of railway infrastructure to increase train speed, Stage 2* was signed with the Central Finance and Contracting Agency, setting the project implementation period to

31 December 2026 at the latest. By the end of 2024, 15 out of 45 construction projects had been put into operation.

At the same time, the Ministry of Transport, in cooperation with LDz – the infrastructure operator of the existing 1,520 mm gauge railway network – and the Rail Baltica project implementing bodies RB Rail AS and the limited liability company EIROPAS DZELZCEĻA LĪNIJAS, continues to develop proposals for the development of a unified railway network in Latvia for the 2021–2027 European Union multiannual budget period. These proposals include improvements and modernization of the railway network to ensure competitive passenger rail transport, as well as the necessary investments in railway infrastructure, while ensuring synergy between the 1 520 mm network and Rail Baltica infrastructure, and gradually reallocating Recovery and Cohesion Fund resources for 2021–2027.

LDz has proactively started activities in the preparation and implementation of two more projects for the 2021-2027 programming period – Riga Airport-Central Station-Daugavkrasti (RIX-RCS-Daugavkrasti) and modernisation of railway passenger infrastructure, which will modernise 23 more stations and stops. For both projects, the preparation of procurement documentation and public consultations have started in 2024, with the contract to be concluded if funding is awarded.

The project *Installation of fencing and pedestrian crossings at railway infrastructure objects* according to the decision No VL-1.6/347-2023 of the Board of LDz dated 31 October 2023 and the decision No PA 1.2/14-10 of the Council of LDz dated 9 November 2023 has been terminated and the contract with the constructor has been unilaterally terminated by LDz because the contractor with whom the construction contract was concluded is unable to fulfil its obligations and perform the construction works.

Although the project *Installation of fencing and pedestrian crossings in railway infrastructure projects* has been terminated, fencing is being implemented in several other projects, thus improving road safety:

- As part of the EU-funded project *Modernisation of the Riga railway junction section Sarkandaugava-Mangaļi-Ziemeļblāzma*, completed in 2023, 2 km of fencing was built to ensure pedestrian safety by restricting free access to the public railway infrastructure;
- As part of the project *Modernisation of Railway Passenger Infrastructure*, fencing has been built at Zemitāni station and is planned to be built at the Bolderāja stop;
- Under the project *Modernisation of Railway Infrastructure to Increase Train Speed*, 11.4 km of the total 12.5 km of fencing will have been built by the end of 2024, and construction work is ongoing.

Active work continued on the implementation of the project *Development of an interoperable railway system in the Baltic States* in cooperation with the Estonian company AS Eesti Raudtee. The project is being implemented with co-financing from the Connecting Europe Facility and was completed by 31 December 2024. The Final Project Report was prepared and submitted to the Ministry of Transport of the Republic of Latvia for approval. The project aims to ensure a minimum mandatory amount of information and exchange between railway undertakings (railway undertakings, infrastructure operators, wagon owners). The project solutions include: (i) analysis of the feasibility of implementing telematics applications for passengers and freight (legislation; business model; processes; system architecture); (ii) development of a common system concept; (iii) implementation of a prototype real-time rail transport management system; (iv) development of technical specifications and procurement / implementation of systems.

The modernisation project of the electrified Riga national urban/suburban rail network has been launched under the Recovery and Resilience Facility. As part of the project, it is planned to improve the zero-emission railway infrastructure at the Riga junction and on the Riga - Tukums line, as well as to expand the electrified area Zasulauks - Bolderāja by replacing and constructing a contact network, thus ensuring the expected migration to the 25 kV electrification system, which is much more efficient and sustainable compared to the existing 3.3 kV system.

The project application “Modernisation of the railway network” has been submitted on 30.11.2023. For the selection of project applications for the recovery mechanism “Competitive rail passenger transport in the common public transport system of the city of Riga for the specific objective 1.1.1.1.1.i.2 Competitive rail passenger transport in the common public transport system of the city of Riga”. On 28 February 2024, the contract with the Central Finance and Contracting Agency on the implementation of the European Union Recovery Fund project No 1.1.1.1.i.2/1/23/I/CFLA/001 *Modernisation and*

Development of the Electrified Railway Network was signed. The deadline for eligibility of investment expenditure is 31 March 2026. The amount of the Recovery Fund available for the investment is EUR 72 700 thousand, provided in the form of a grant. The contract for the construction and supervision of the project was signed in February 2024 and the design works started in 2024.

In recent years, the Group has undergone a significant transformation from its historical focus on freight transport towards the development of a modern passenger infrastructure. The decline in freight volumes has had an impact both on the Group as a whole and on the operations of the Group's three subsidiaries: LDZ CARGO, LDZ ritošā sastāva serviss and the volume of services provided by SIA LDZ Logistika and their financial results. In order to create a strong, competitive company in the Baltic region with a wide range of services, providing international and domestic freight transport, full-service rolling stock repairs, modernisation, maintenance and equipment, as well as freight forwarding services, it is planned to merge all three companies, according to the information report on the railway sector reform prepared by the Ministry of Transport.

By Decision No VL-1.6./336 of LDz Board made on 29 October 2024, it has been decided to terminate LDz's participation and decisive influence in SIA LDZ ritošā sastāva serviss and SIA LDZ Logistika and, pursuant to Section 335 of the Commercial Law, to merge SIA LDZ ritošā sastāva serviss and SIA LDZ Loģistika with SIA LDZ CARGO by way of reorganisation, after obtaining the authorisation of the Cabinet of Ministers as the supreme decision-making body of a public person provided for in Section 4 (2) and Section 9 (2) of the *Law on governance of capital shares of public persons and capital companies*. As at the date of these financial statements, no Cabinet decision has been adopted.

NON-FINANCIAL STATEMENT

LDz is one of the country's largest employers, the sector and scale of its activities creating a situation in which LDz both directly and indirectly affects a large number of people across Latvia. First of all, there are on average 3 676 employees of SJSC Latvijas dzelzceļš who work for LDz and are thus able to support their families, pay taxes and contribute in other ways to the national economy. In addition to the large number of employees, the activities of LDz affect every citizen who uses rail transport, as well as those whose homes are close to the railway infrastructure.

Railway operations are also closely related to environmental factors and its impact on the quality of people's life. One of the topical issues relates to noise from rail traffic, in particular freight traffic, and its impact on the health and well-being of people living nearby railway. In order to reduce the impact caused by noise and vibrations, the "VAS "Latvijas dzelzceļš" action plan for noise reduction until 2028" has been developed, which defines tasks and objectives for noise reduction for railway lines with traffic intensity of more than 30 000 trains per year. The Action Plan includes measures to reduce noise levels in the areas concerned - including both tasks to be carried out as part of routine track maintenance (e.g. replacing and grinding the rails, which slightly reduces noise) and the construction of a 618-metre noise barrier in Riga, Ķengarags, where noise discomfort levels are highest. The noise maps and action plan are available on the LDz website. In 2024, the project started with the development of the specification for the noise barrier and the procurement process, which closed on 11 November 2024. The noise barrier is expected to be built by the end of 2025, with public health benefits worth more than EUR 90 million (the Action Plan assumes a 20-year lifetime for the noise barrier, based on a model developed by the European Environment Agency to assess and monetise the negative effects of noise). The resources for the implementation of this measure are foreseen in the LDz investment plan for 2024 and 2025 and the investments are to be made from LDz own resources. In addition, the Action Plan summarises the costs and benefits of constructing noise barriers not only in Ķengaragi, but also in Ogre, Ikšķile, Salaspils, and Bieriņi, but funding for these measures is currently not available and is not planned.

LDz is a public-use railway infrastructure operator tasked not only with taking care of the quality, safety, and development of the railway but also with safeguarding the testimonies of railway history that tell the story of the railway industry in Latvia from its beginnings. The Latvian Railway History Museum is the main preserver of railway heritage.

LDz always respects the principles of equality in its relations with employees: in employment relationships no preference is given to representatives of a particular race, skin colour, gender, age, religious, political or other convictions or depending on national or social origin, wealth or marital status, sexual orientation or other circumstances. In December 2024, LDz employed 1 036 women or 31% of the total workforce and 2 275 men or 69% of the total workforce. The relatively high number of women employed by LDz in what has traditionally been a strongly male-dominated sector demonstrates that LDz does not discriminate against its employees on the basis of their gender, thus reducing the stereotype of railways as a male-only industry.

Employees in LDz are not discriminated based on their nationality. LDz does not keep a track record of the number of employees of a particular nationality, while it employs people of different nationalities:

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

The corporate values of Latvijas dzelzceļš Group, as well as the principles of professional conduct and ethics, which ensure that they are directed against corruption, conflict of interest, illegal use of inside information and any other illegal and unethical actions, are set out in the Code of Ethics of Latvijas Dzelzceļš Group.

The Code of Ethics of Latvijas dzelzceļš Group summarises the best commercial practices and general principles of professional ethics and employee conduct to be followed by the Group Parent Company VAS Latvijas dzelzceļš and its dependent limited liability companies.

To regulate the employees' conduct in contact with suppliers, business partners and concerning the organization of business trips and the acceptance of gifts, and to establish procedures in the event of suspicion of possible corruption or fraud, the Anti-Fraud Policy of LDz has been put in place, which is closely related to the national regulatory framework, i.e. Cabinet Regulation No. 630 *Regulation on the basic requirements of the internal control system for the prevention of corruption and conflicts of interest in a public institution* and the Whistleblowing Law.

One of the strategic goals of VAS Latvijas dzelzceļš is to reduce the number of injuries and fatalities in train collisions. Thus, the Group's Road Safety Policy is one of the basic elements of the entity's safety management system. The purpose of the policy is to determine uniform principles and courses of action for the management of road safety, observing the requirements of the laws and regulations governing the field of road safety to prevent the occurrence of unacceptable risks. In addition to improvements in infrastructure safety, one of the options is to inform and educate the public about safe behaviour in the vicinity of railway infrastructure and the crossing of tracks. LDz annually organizes safety campaigns aimed at informing and educating the public about safety in the vicinity of railways.

Latvijas Dzelzceļš Group has implemented an Environmental and Energy Management Policy. Its main objective is to define the Group's environmental and energy management principles and tasks, taking into account the requirements of regulatory enactments and the objectives and tasks of the national environmental policy set for the Group companies' business areas, in order to reduce the negative impact of the Group's activities on the environment, promote efficient use of resources, increase energy efficiency, provide human and environmentally safe services, and ensure sustainable, competitive and energy-efficient development of the Group. Procedures related to the implementation of the Environmental and Energy Management Policy are also in place:

- Procedure for identification of environmental aspects in Latvijas Dzelzcels Group;
- Procedure for the preparation of annual plans for environmental protection measures and reports on their implementation in Latvijas Dzelzceļš Group;
- Procedure for the preparation of annual plans for energy efficiency improvement measures and reports on their implementation in Latvijas Dzelzceļš Group.

The Group's environmental and energy management policy serves as the basis for the development of environmental and/or energy management programmes for companies. The environmental and/or energy management programme based on it is a medium-term document (action plan) of the Group's companies which defines the environmental and/or energy management objectives and targets of the specific company, the timeframe for their implementation and the persons responsible, also defining objectives and targets related to improving energy efficiency, sustainable use of natural and energy resources, reduction of negative environmental impacts, etc.

LDz has implemented a certified environmental and energy management system (continuous analysis of significant energy consumption areas and environmental impacts) under ISO 50001:2018 and ISO 14001:2015 standards requirements.

The LDz Energy Efficiency Improvement Action Plan sets out specific measures to improve energy efficiency each year. For 2024, 37 measures were identified in the most important areas of energy consumption (electricity, heat, fuel). The measures included replacement and/or introduction of certain equipment, introduction of new technologies, change of transport, improvement of energy efficiency of buildings, including replacement of windows and doors, insulation of walls, etc., replacement of lighting and other measures. The total funding for energy efficiency measures in 2024 was EUR 2.2 million and the projected energy savings for six of the 37 measures for which savings have been identified are estimated at 42.94 MWh/year. These savings were calculated for the measures to change the heating mode from district heating to wood pellets and to change the internal lighting from mercury-containing luminaires to LED luminaires in five locations.

Environmental protection measures are also planned annually in accordance with the Procedure for Preparation of Annual Environmental Protection Plans and Reports on their Implementation in the Group's Environmental and Energy Management Policy. They are based on measures to mitigate significant environmental aspects and to improve and/or remedy the previous year's environmental findings. The total planned funding for the implementation of LDz's Environmental Action Plan for 2024 is EUR 1.07 million, including measures to mitigate the company's climate impact, such as GHG emission calculations, environmental and energy management system audits and other activities.

Where possible, climate change risks are also taken into account in the planning of new infrastructure projects, such as the Zasulauks-Bolderāja railway line electrification project application, which plans to renew and upgrade electrified infrastructure on lines that are already electrified, and the electrification of the section to Bolderaja, the potential climate risks (storm and flooding impacts) were also analysed as part of the assessment of whether the project meets the EU Taxonomy Technical Examination criteria and contributes to climate change mitigation and does not significantly undermine the climate change mitigation objective.

In addition, LDz is working on policy initiatives to shift transport from road to rail, which would contribute to reducing GHG emissions in the transport sector as a whole.

In order to ensure the assessment of operations in accordance with Regulation (EU) 2020/852 or the EU Taxonomy Regulation, LDz developed in 2023 and updated in 2024 the Guidelines for Taxonomy Compliance Assessment in the Latvijas Dzelzceļš Group (current version approved by the LDz Board on 12 March 2024). The Guidelines summarise information on the approach to assessing Taxonomy in relation to the Group companies' operating expenses, turnover indicators and capital expenditure, and identify the areas and criteria of Taxonomy that are potentially most relevant to the LDz Group's operations. Initially, the Taxonomy assessment process was extended to investment planning (capital expenditure) by adjusting the development and renewal project application forms and the Taxonomy assessment at the end of 2023, taking into account the preparation of the LDz Medium-Term Investment Plan 2024-2028 and recording the Taxonomy-eligibility of each planned investment project and, consequently, its Taxonomy-alignment. In 2024, the Taxonomy has also been assessed in the accounting of operating expenditure and turnover, assessing Taxonomy membership and compliance by activity.

The fulfilment of the non-financial objectives set out in the 2024 budget of VAS Latvijas dzelzceļš is as follows:

	PERFORMANCE INDICATORS	2024 BUDGET	2024 ACTUAL
Governance	Operating costs of railway infrastructure per km of main track, EUR thous.	68,1	58,9
	Number of accidents per million train-km, number	1,0	1,3
Mobility	Average speed of a passenger train section, km/h	55,3	54,0
	Share of rail passenger transport in total public transport, %	10,0%	10,2%
Commercial activities	Market share of LDZ CARGO in the Baltics, %*	34,4%	20,7%*
	Transported rail freight using LDz infrastructure network, million t	16,5	11,5
Sustainability and Human capital	Sustainability Index, level	Gold	Platinum**
	Employee satisfaction rating, %	76%	n/v***

* taking into account the volume of freight transported by LDZ CARGO SIA in Latvia and Estonia.
** Sustainability Index assessment for 2024.
*** No employee survey was carried out in 2024, so the current employee satisfaction score is 74% in 2023.

LDz is successfully working on reducing operating costs, as a result of which LDz has met the non-financial target of operating costs of railway infrastructure per km of track set in the strategy.

The non-financial goals related to the freight transportation volumes were not met as due to various economic and geopolitical processes the downward trend in freight transportation that started in previous years, continued in 2024. The decline in cargo volumes was significantly affected by the international sanctions imposed on Russian and Belarusian companies, individuals and goods after Russian invasion of Ukraine.

Information on the Company's development, results of operations and financial position is provided in the previous paragraphs of the Management Report and notes to the annual report, and the Group Sustainability Statement.

The Group's Statement on Corporate Governance, prepared in accordance with Section 58.[1] of the Law on the Governance of the Capital Shares of a Public Person and Capital Companies and in compliance with the Cabinet of Ministers Regulation No. 175 of 15 March 2022 *Regulation on corporate governance recommendations applicable in the capital company of a public person and in the public privately-held capital company*, is included in the Group's Sustainability Statement.

Detailed information on the impact of environmental requirements is included in the Group's Sustainability Statement.

KEY RISKS

The Company's most significant risks are related to global external factors that are beyond its control, and the objective of managing such risks is to minimise negative impacts in the most cost-effective manner, find alternatives, expand existing activities, and develop new ones.

Market risk

The risk that changes in market structure and volumes will result in a decline in the volume of services provided by the Company and have a material impact on revenues. LDz's business activities since March 2022 have been significantly affected by external factors related to changes in the geopolitical situation and international economic sanctions imposed against Russia and Belarus as a result of the hostilities in Ukraine. The structure and volume of the rail freight market is affected by international sanctions imposed against Russia and Belarus, which prohibit the import and export of a number of traditional rail freight commodity groups. In addition, political risks add to the uncertainty of transit through Russia and Belarus, increasing the likelihood of risk occurrence.

In addition, in 2025, the volume of freight traffic and, consequently, the use of the public railway infrastructure managed by LDz may be adversely affected by the continued uncertainty regarding the coordination or non-coordination of freight traffic by Russian Railways, the Russian ban on the export of Russian grain, as well as the Russian Railways ban on the loading of empty wagons registered in other countries.

Changes in the market structure continue to increase the relative share of passenger transport. In fact, the actual use of publicly-owned railway infrastructure for domestic passenger transport in 2024 has increased by 32.6% compared to 2019. As the use of infrastructure for passenger transport is subsidised by the State in line with direct cost, such changes in the market structure continue to have a negative impact on the performance of Latvijas dzelzceļš.

Market risk increases the probability of liquidity risk due to uncertainty about freight revenues. Due to the financing model for financial stability compensation and the significant volumes of investments, as well as the arrangements for receiving EC funds (deferred payments), LDz may periodically incur cash flow deficits. To address this risk, credit resources have been mobilised, longer payment deadlines have been set and the responsible units have been monitored for compliance with these deadlines, cash flow is being monitored more closely and scenario modelling (rolling forecast) is being carried out. Likewise, more detailed and frequent review of the investment plan calendar has been introduced.

Risk of compliance with international and national sanctions

The Company's cooperation with Russia and Belarus has decreased significantly, but still exists due to the technological characteristics of rail transport. Since the Russian invasion of Ukraine on 24 February 2022, international sanctions against Russia and Belarus have been increasingly strengthened: the number of natural and legal persons subject to sanctions has been increased, additional restrictions on the movement of goods and restrictions on the activities of financial institutions have been imposed.

To ensure compliance with sanctions, the Council of LDz has approved a Group-wide policy, which is implemented by the LDz Sanctions Department. Employees undergo regular training, and updates on changes to sanctions are promptly communicated to relevant personnel. Up-to-date information, including explanations and guidelines for daily sanctions checks, is continuously available. Additionally, freight applications are thoroughly checked, and due diligence is conducted prior to transactions involving risk indicators.

FOREIGN BRANCHES AND REPRESENTATIVE OFFICES

LDz has no foreign branches and representative offices.

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

The external factors relating to the geopolitical situation, the war in Ukraine and the international economic sanctions imposed on Russia and Belarus, as well as the inclusion of Russia in the list of low-tax or tax-free countries and territories, indicate that the situation in terms of freight volumes will not improve significantly in the future. In addition, in 2025, the volume of freight traffic and, consequently, the use of the public railway infrastructure managed by LDz may be adversely affected by the continued uncertainty regarding the coordination or non-coordination of freight traffic by Russian Railways, the Russian ban on the export of Russian grain, as well as the Russian Railways ban on the loading of empty wagons registered in other countries.

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

Given the Company's cooperation with Russian and Belarusian partners in previous years, as well as the nature of its operations, the war in Ukraine has undoubtedly had and will continue to have an impact on the Company's operations in 2025 and beyond. The restrictions enacted to date have contributed to the freight turnover decline and it is difficult to predict the possible impact of additional sanctions on the Company's activities in the future. In view of the risks associated with sanctions, the following measures have been taken:

1. LDz has established a separate Sanctions Department and Sanctions Committee responsible for sanctions reviews, strengthening the exchange of information on sanctions reviews within the Group.
2. The Group has developed and implemented the Sanctions Policy of Latvijas Dzelzceļš Group, ensuring a uniform approach to sanctions checks throughout the Group.
3. In assessing the risks related to significantly expanded lists of sectoral sanctions, LDz strengthened freight inspection procedures by increasing the assessment of freight types and their compliance with the established sectoral sanctions.
4. All persons included in the sanctions lists are reflected in the Sanctions Information System (IS) maintained by LDz, which ensures daily automatic verification of all clients and cooperation partners for coincidence with the lists of sanctioned persons. The lists of IS Sanctions are updated daily automatically from the official sites that maintain news about the sanctions of the Republic of Latvia, the European Union, the UN, and OFAC.
5. In 2025, work continued to upgrade IS Sanctions system, as well as on strengthening the LDz's sanctions monitoring function through several technical improvements.

The Company's Management is aware of the uncertainty associated with the further development of the situation and continues to monitor the development of events daily, as well as their possible impact on the LDz's activities.

However, despite the difficult situation, LDz management is confident that the going concern basis is applicable to the preparation of the financial statements as a result of the implementation of the Group's new business model, the execution of the crisis plan and the review of organisational and technological processes, which has resulted and will continue to result in cost reductions, as well as the receipt of the necessary State funding pursuant to Section 9(4) of the Railway Law.

The main objective of LDz is to ensure the management of the state public-use railway infrastructure and safe, high-quality. and efficient railway and logistics services in the interests of the state and the Latvian national economy.

To mitigate the impact of market risk, the Company optimises costs by changing technological and administrative processes and increasing their efficiency. In order to diversify the freight nomenclature and reduce dependence on Russian and Belarusian exporters, the Company is focused on entering new markets and attracting freight, as well as actively working on increasing the services provided to other market segments, including: increasing the volume of domestic freight transport.

In order to reduce LDz's costs and ensure compliance with the 2025 revenue and operating volume forecasts, as well as to improve process efficiency, LDz's management has decided on significant changes to LDz's organisational structure:

- Optimisation of the organisational structure by terminating the activities of several units as of 1 April 2025, the functions of which will be taken over by other units, resulting in a reduction of administrative costs;

- Centralisation of functions by merging material support, mechanisation, and management processes to avoid duplication of functions and save resources.

In parallel with cost-cutting measures, the Company is working to increase revenues – both from the rental of facilities and from the provision of services outside the Group.

In 2024, to ensure the financial stability, LDz received from the state budget EUR 14 359 thousand of uncovered financial stability compensation payments for 2022 and EUR 32 439 thousand for 2023.

The Company works with the Ministry of Transport to prepare a new contract to ensure the financial stability of LDz, as the multi-annual agreement concluded in 2018 expired on 31 December 2022. The state budget funds to ensure the financial stability of LDz for 2024 in the amount of EUR 26 013 thousand are foreseen in the law *On the State Budget for 2025 and Budget Framework for 2025, 2026, and 2027*.

In 2024, the funding required to ensure financial stability was recognised as revenue in accordance with the recognition principles laid down in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. These principles require the recognition of a government grant at the point in time when there is reasonable assurance that the conditions attached to the receipt of the grant have been fulfilled. In addition, grants relating to the recovery of costs should be recognised in the period in which the costs are incurred, provided there is reasonable assurance that the grant will be repaid in the future.

The criteria for LDz to receive the financial stability payment are the non-fulfilment of the financial stability conditions provided for in Section 9, Paragraph 4 of the *Railway Law*. Given that in 2024 LDz did not meet the conditions for financial stability set out in Section 9, Paragraph 4 of the *Railway Law*, the criteria for receiving financial stability compensation payments set out in Section 9, Paragraph 4 of the *Railway Law* were therefore met. The fact that the financial stability payment from previous years has been received confirms the validity of the revenue recognition for 2024.

In order to transparently disclose the total recognised financial stability payment in the financial statements, an additional column *2024 result before financial stability compensation* and a column *2023 result before financial stability compensation* are presented in the Statement of Comprehensive Income of LDz. This disclosure is not required by the IFRS Accounting Standards as adopted by the European Union (EU), but is provided as an additional indicator for the purpose of disclosure in the financial statements of the profit or loss of LDz in order to receive public funding for the financial stability of LDz in accordance with Section 9(4) of the Railway Law to compensate for the loss.

Although there is confidence in the receipt of financial resources, there is uncertainty regarding the timing of receipt of additional financial resources required by LDz. This uncertainty applies both to the funds to compensate for the costs of maintaining and renewing the railway infrastructure in full for the provision of public transport services throughout 2024 and to the funds for ensuring the financial stability of LDz.

LDz has been granted a short-term cash flow financing credit line of EUR 5 000 thousand from November 2024 at the Latvian branch of Luminor Bank AS for the cases of delays in the state budget payments to ensure financial stability. However, due to a significant increase in the cash balance as at 31 December 2024, this credit line has not been used as at the end of the reporting year.

FINANCIAL PERFORMANCE

The operating result for 2024 is a loss of EUR 32 847 thousand, significantly affected by a EUR 31 213 thousand impairment of net assets. Impairment was recognised for the infrastructure used exclusively for freight transportation, especially on those sections of railway track where there was a significant drop in traffic. As a result of the economic activity, the funds required to ensure the financial stability of the national public railway infrastructure operator, as laid down in national legislation, amounting to EUR 26 013 thousand have been recognised in 2024. The financial stability compensation has been recognised following the guidelines of the IFRS Accounting Standards and in the amount provided for in Section 73 of the law *On the State Budget for 2025 and Budget Framework for 2025, 2026, and 2027*. The application for financial stability will be made after approval of the annual report of LDz in accordance with the procedure set out in Section 9(4) of the *Railway Law*.

EVENTS AFTER THE DATE OF PREPARATION OF THE ANNUAL REPORT FOR 2024

There have been no events since the end of the reporting year, that have had a material impact on the information presented in the financial statements for 2024.

STATEMENT ON THE RESPONSIBILITY OF THE BOARD

The Board of LDz (“Management”) is responsible for preparing the financial statements.

The financial statements of VAS Latvijas dzelzceļš on pages 15 to 59 have been prepared based on the accounting records and supporting documents and give a true and fair view of the Company's financial position as at 31 December 2024, and of its performance and cash flows for 2024.

The above-mentioned financial statements have been prepared in accordance with the IFRS Accounting Standards adopted in the EU on a going concern basis. In the preparation of the financial statements Management has made prudent and reasonable judgements and estimates.

The Management is responsible for the maintenance of proper accounting records, the safeguarding of the Company’s assets and the prevention and detection of fraud and other irregularities in the Company. The Management is responsible for fulfilling the requirements of the legislation of the Republic of Latvia.

Riga, see the timestamp for the date.

Chairman of the Board	A.Grinbergs
Member of the Board	R.Pļavnieks
Member of the Board	M.Ķeņģis

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FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME FOR 2024

(EUR)

	NOTES	2024 ACTUAL BEFORE FINANCIAL STABILITY COMPENSATION*	2024	2023 ACTUAL BEFORE FINANCIAL STABILITY COMPENSATION*	2023
Revenue	4	129 087 887	155 100 801	132 970 445	165 409 602
Other income	5	21 190 252	21 190 252	22 833 041	22 833 041
Total operating income		**150 278 139**	**176 291 053**	**155 803 486**	**188 242 643**
Cost of goods, materials, and services	6	(44 341 448)	(44 341 448)	(60 208 675)	(60 208 675)
Personnel costs	7	(85 891 310)	(85 891 310)	(86 223 787)	(86 223 787)
Depreciation, amortisation, and impairment	8	(77 742 135)	(77 742 135)	(45 869 449)	(45 869 449)
Other expenses	9	(2 243 189)	(2 243 189)	(1 436 331)	(1 436 331)
Total operating expenses		**(210 218 082)**	**(210 218 082)**	**(193 738 242)**	**(193 738 242)**
Loss from operating activities		**(59 939 943)**	**(33 927 029)**	**(37 934 756)**	**(5 495 599)**
Income from investments in related companies	10	4 841 243	4 841 243	9 089 691	9 089 691
Finance income	11	760 178	760 178	917 562	917 562
Finance expenses	11	(4 521 713)	(4 521 713)	(4 511 654)	(4 511 654)
Losses before corporate income tax		**(58 860 235)**	**(32 847 321)**	**(32 439 157)**	**-**
Loss of the year		**(58 860 235)**	**(32 847 321)**	**(32 439 157)**	**-**
Loss and comprehensive income for the reporting year attributable to the shareholder		**(58 860 235)**	**(32 847 321)**	**(32 439 157)**	**-**

* See Note 2.15 for an explanation of the addition of additional non-IFRS metrics.

Notes on pages 21 to 59 form an integral part of these financial statements.

Riga, see the timestamp for the date.

Chairman of the Board	A.Grinbergs
Member of the Board	R.Pļavnieks
Member of the Board	M.Ķeņģis

The annual report was prepared by the Finance Department of SJSC Latvijas dzelzceļš:
Chief Financial Officer T.Labzova-Ceicāne

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STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2024

(EUR)

ASSETS	NOTES	31.12.2024	31.12.2023
Long-term investments			
Property, plant and equipment	12	484 649 338	538 600 782
Right-of-use assets	13	3 023 281	3 244 373
Intangible assets	14	3 585 210	3 482 898
Advance payments for property and equipment		25 139 045	25 854 762
Investment in subsidiaries	15, 16	110 816 648	110 816 648
Loans to related companies	18, 37	7 921 477	11 740 401
Other long-term financial investments	19	73 982	73 982
Total long-term investments		**635 208 981**	**693 813 846**
Current assets:			
Inventories	20	4 187 247	4 087 561
Trade and other receivables	21	5 740 622	5 826 222
Loans to related companies	18, 37	3 838 272	4 207 731
Due from related companies	37	2 945 788	4 396 363
Accrued income	4	26 012 914	46 798 155
Cash and cash equivalents	22	60 123 645	25 505 026
Total current assets		**102 848 488**	**90 821 058**
Total assets		**738 057 469**	**784 634 904**

(continued overleaf)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2024 (CONTINUED)

(EUR)

EQUITY AND LIABILITIES	NOTES	31.12.2024	31.12.2023
Shareholder's equity and liabilities			
Shareholder's equity			
Share capital	23	374 419 791	327 621 636
Reserves and retained earnings or loss		(56 032 060)	23 613 416
Total shareholder's equity		**318 387 731**	**351 235 052**
Liabilities			
Non-current liabilities:			
Provisions	24	279 618	283 212
Loans from credit institutions	25	67 605 306	53 988 276
Accounts payable to suppliers and contractors		1 255 851	767 168
Taxes and social contributions	27	3 339 558	5 081 936
Lease liabilities		1 887 053	1 989 343
Deferred income	26	260 941 566	274 848 436
Total non-current liabilities		**335 308 952**	**336 958 371**
Current liabilities:			
Loans from credit institutions	25	35 342 969	32 321 087
Provisions	24	1 198 278	1 216 805
Trade and other payables		20 263 252	23 174 697
Due to related companies	37	2 196 244	3 144 355
Taxes and social contributions	27	10 538 536	16 422 149
Lease liabilities		1 031 579	1 294 912
Deferred income	26	13 789 928	18 867 476
Total current liabilities		**84 360 786**	**96 441 481**
Total liabilities		**419 669 738**	**433 399 852**
Total equity and liabilities		**738 057 469**	**784 634 904**

Notes on pages 21 to 59 form an integral part of these financial statements.

Riga, see the timestamp for the date.

Chairman of the Board	A.Grinbergs
Member of the Board	R.Pļavnieks
Member of the Board	M.Ķeņģis

The annual report was prepared by the Finance Department of SJSC Latvijas dzelzceļš:
Chief Financial Officer T.Labzova-Ceicāne

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STATEMENT OF CHANGES IN EQUITY

(EUR)

	SHARE CAPITAL	RETAINED EARNINGS/LOSS	TOTAL SHAREHOLDER'S EQUITY
	For 2023		
At 01.01.2023	**327 621 636**	**23 613 416**	**351 235 052**
Loss and comprehensive income for the reporting year	-	-	-
31.12.2023	**327 621 636**	**23 613 416**	**351 235 052**
	For 2024		
At 01.01.2024	**327 621 636**	**23 613 416**	**351 235 052**
Increase in share capital (see Note 23)	46 798 155	-	46 798 155
Financial stability compensation for 2022 and 2023 *(see Note 4)*	-	(46 798 155)	(46 798 155)
Loss and comprehensive income for the reporting year	-	(32 847 321)	(32 847 321)
31.12.2024	**374 419 791**	**(56 032 060)**	**318 387 731**

Notes on pages 21 to 59 form an integral part of these financial statements.

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STATEMENT OF CASH FLOWS
FOR 2024 (ACCORDING TO THE INDIRECT METHOD)

(EUR)

	NOTES	2024	2023
Cash flow from operating activity			
Profit or loss before corporate income tax		**(32 847 321)**	**-**
Adjustments for:			
Depreciation of property, plant and equipment and other impairment adjustments		58 051 506	26 641 506
Amortisation of intangible assets and other impairment adjustments	14	843 230	1 022 377
Foreign exchange gain or loss	9	16 646	(144 555)
Income from investments in related companies	10	(4 841 243)	(9 089 691)
Other interest income and similar income	11	(760 178)	(917 562)
Interest expenses and similar expenses	11	4 521 713	4 511 654
Profit before adjustments for changes in the working capital		**24 984 353**	**22 023 729**
Adjustments for:			
Decrease in deferred expenses and accrued income		(24 547 858)	(21 863 614)
Increase in inventories		(1 013 158)	(209 510)
Decrease of accounts payable to suppliers, contractors and other creditors;		(12 319 494)	(7 080 949)
Cash (used in) / generated from operations		**(12 896 157)**	**(7 130 344)**
Interest expense		(5 626 376)	(4 376 097)
Net cash (used in) / generated from operating activities		***(18 522 533)***	***(11 506 441)***
Cash flow from investing activity			
Purchase of property, equipment and intangible assets		(55 858 299)	(60 705 677)
Proceeds from sale of property, plant and equipment and intangible assets		483 543	687 997
Subsidies or grants received (net)	26	36 844 106	28 139 831
Income from repaid borrowings	18	4 218 971	5 718 972
Interest received		804 996	876 094
Dividends received	10	4 841 243	9 089 691
Net cash flows from investing activities		***(8 665 440)***	***(16 193 092)***

(continued overleaf)

STATEMENT OF CASH FLOWS FOR 2024 (CONTINUED)

(EUR)

	NOTES	2024	2023
Cash flows used in financing activities			
Increase in share capital	23	46 798 155	-
Borrowings received	25	44 000 000	20 000 000
Borrowings repaid	25	(27 361 088)	(24 247 388)
Lease payments		(1 619 145)	(1 604 886)
Net cash generated from financing activities		***61 817 922***	***(5 852 274)***
Gain on foreign exchange rate fluctuations		**(11 330)**	**40 493**
Change in cash and cash equivalents during the reporting year		**34 618 619**	**(33 511 314)**
Cash and cash equivalents balance at the beginning of the reporting year		25 505 026	59 016 340
Cash and cash equivalents balance at the end of the reporting year	**22**	**60 123 645**	**25 505 026**

Notes on pages 21 to 59 form an integral part of these financial statements.

Riga, see the timestamp for the date.

Chairman of the Board A.Grinbergs

Member of the Board R.Pļavnieks

Member of the Board M.Ķeņģis

The annual report was prepared by the Finance Department of SJSC Latvijas dzelzceļš:
Chief Financial Officer T.Labzova-Ceicāne

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NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION ON THE COMPANY

Name of the Company	LATVIJAS DZELZCEĻŠ
Legal status	State Joint Stock Company
Address	Emīlijas Benjamiņas iela 3, Riga, LV-1547
Unified registration number	40003032065
Date of registration with the Enterprise Register	1 October 1991
Date of registration with the Commercial Register	10 September 2004
Place of registration	Riga
Date of issue of the certificate of registration	10 September 2004
Line of business (NACE rev.2)	42.12 - Construction of railways and underground railways 52.21 - Service activities incidental to land transportation
Shareholder	Republic of Latvia (100%)
Shareholder representing the state	Ministry of Transport of the Republic of Latvia Emīlijas Benjamiņas iela 3, Riga, LV-1743
Supervisory body	Council of the Company
Council	Andris LIEPIŅŠ, Chairman of the Council from 7 June 2024, Deputy Chairman of the Council until 6 June 2024. Reinis CEPLIS, Member of the Council Andis VEINBERGS, Member of the Council from 12 February 2025
Board	Artis GRINBERGS, Chairman of the Board from 10 June 2024 Rinalds PĻAVNIEKS, Member of the Board from 10 June 2024, Chairman of the Board until 10 June 2024 Mārtiņš ĶEŅGIS, Member of the Board from 1 July 2024 Vita BALODE-ANDRŪSA, Member of the Board until 10 June 2024
Name and address of the auditor and the sworn auditor in charge	KPMG Baltics SIA registration No. 40003235171 Latvian Association of Certified Auditors (LACA) Commercial Company Licence No. 55 Roberta Hirša iela 1, Riga, LV-1045 Latvia Sworn Auditor in Charge Armine Movsisjana Certificate No. 178
Reporting year	1 January 2024 to 31 December 2024

2. ACCOUNTING AND ASSESSMENT PRINCIPLES

The financial statements present the financial position, performance and cash flows of LDz as a stand-alone entity. The financial position of the Group (SJSC Latvijas dzelzcels and its subsidiaries) is reflected in the consolidated financial statements published at the same time as the stand-alone financial statements.

The financial statements cover the period from 1 January to 31 December 2024. The financial statements are approved by the shareholder meeting convened by the Board of the Company after receipt of the auditor's opinion and the Council's report.

2.1. ACCOUNTING AND ASSESSMENT PRINCIPLES

These financial statements have been prepared in accordance with IFRS Accounting Standards as adopted by the EU (IFRS Accounting Standards). Due to the EU endorsement process, this note also reflects standards and interpretations that have not been endorsed for application in the EU, as these standards and interpretations may have an impact on LDz's financial statements in future periods if they are endorsed.

The financial statements are prepared on the historical cost basis and on a going concern basis.

IFRS require the management of LDz to make assumptions and judgements in preparing the financial statements that affect the reported amounts of assets and liabilities and disclosures at the reporting date and the reported amounts of revenues and expenses during the reporting period. The actual results may differ from these estimates. Areas that require significant or complex assumptions to be made, or where the assumptions and estimates made are significant in the context of the financial statements, are disclosed in Note 3.

In the reporting year, no IFRS Accounting Standards adopted by the EU, amendments thereto or amendments to their interpretations became effective, whose adoption had a material impact on the Company's operations. In the reporting year, the following amendments to standards have entered into force and have been approved for use in the EU as of 1 January 2024:

- Classification of Liabilities as Current or Non-current (amendments to IAS 1);
- Non-current Liabilities with Covenants (amendments to IAS 1);
- Lease Liability in a Sale and Leaseback (amendments to IFRS 16);
- Supplier Finance Arrangements (amendments to IAS 7 and IFRS 7).

The following amendments and interpretations to standards, which may impact the Company's financial statements, are currently being assessed by the Company's management. Initial estimates suggest that the impact will not be material (except for IFRS 18, *Presentation and Disclosure in Financial Statements*, the impact of which will be evaluated separately upon adoption in the EU). These changes will become effective on or after 1 January 2025:

- Lack of exchangeability (Amendments to IAS 21) (effective from 1 January 2025);
- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7) (effective from 1 January 2026, not yet adopted by the EU);
- Annual Improvements to IFRS Accounting standards Volume 11 (issued on 18 July 2024) (effective from 1 January 2026, not yet adopted by the EU);
- IFRS 18 *Presentation and Disclosure in Financial Statements* (issued on 9 April 2024) (effective from 1 January 2027, not yet adopted by the EU);
- IFRS 19 *Subsidiaries without Public Accountability: Disclosures* (issued on 9 May 2024) (effective from 1 January 2027, not yet adopted by the EU).

In addition to the above, the Company's Management has assessed the impact of other standards and interpretations that will be effective from 1 January 2025 and does not expect them to have a material impact on the financial statements.

2.2. FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Transactions and balances in foreign currencies

All transactions in foreign currency are translated into EUR at the euro 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 presented in the financial statements translated into EUR at the foreign exchange rate published by the European Central Bank ("ECB") and in force at the end of the last day of the reporting year. Exchange differences arising from settlements in foreign currencies are recognised in the Statement of Comprehensive Income.

Foreign exchange rates

FOREIGN CURRENCY	CURRENCY UNIT PER EUR 1 EUR 31.12.2024	CURRENCY UNIT PER EUR 1 EUR 31.12.2023
USD	1.03890	1.10500
CHF	0.94120	0.92600

2.3. INTANGIBLE ASSETS

Intangible assets mainly consist of software licences, initially recognised at cost. Intangible assets have finite useful life. Subsequently, intangible assets are carried at cost less accumulated amortisation and impairment losses. Subsequently, intangible assets are carried at cost less accumulated amortisation and impairment losses.

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

For intangible assets, amortisation is calculated on a straight-line basis to write down their acquisition cost over the useful life period and is included in the Statement of Comprehensive Income for the relevant period. Intangible assets are generally amortised over five years.

2.4. PROPERTY, PLANT AND EQUIPMENT

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

The acquisition cost includes the costs directly attributable to the acquisition of the property, plant and equipment. The cost of self-constructed property, plant and equipment consists of the cost of materials and direct labour costs, as well as any other costs directly attributable to bringing the asset into working condition for its intended use, and the costs of demolishing and removing the asset and restoring the site where the asset is to be located. The cost of computer software that is closely related to the functionality of the equipment and cannot be separated from it, is capitalised as part of this equipment.

LDz capitalises property, plant and equipment with cost exceeding EUR 500 and a useful life exceeding one year. Leasehold improvements are capitalised and presented as property, plant and equipment.

If the useful lives of individual components of property, plant and equipment differ, they are accounted for as separate components of those assets. The 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 carrying amount of the asset or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to LDz and if the cost of the item can be measured reliably. Other current repairs and maintenance costs of property, plant and equipment are included in the Statement of Comprehensive Income for the period in which they are incurred.

Gain or loss on disposal of property, plant and equipment is calculated as the difference between the book value of the property, plant and equipment and the proceeds from the sale and included in the Statement of Comprehensive Income for the respective period.

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

Depreciation

Depreciation of property, plant and equipment is calculated on a straight-line basis. Depreciation is charged to the Statement of Comprehensive Income.

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

Depreciation of LDz's property, plant and equipment for the reporting period is calculated by applying the determined useful life to the respective asset.

PROPERTY, PLANT AND EQUIPMENT	USEFUL LIFE
Buildings and structures	10-130 years
Tracks	10-90 years
Railway rolling stock – wagons for technological needs	22-40 years
Railway rolling stock – locomotives, diesel trains, and technological equipment	5-40 years
Track machinery	30 years
Computers, communication equipment, photocopiers, and fittings	3-10 years
Other property, plant and equipment	5-30 years

Assets under construction

Assets that are not ready for their intended use at the time of their acquisition or are in the process of being installed are classified as "assets under construction". The cost of assets under construction is increased during the period by borrowing costs and other direct costs related to the asset until its commissioning. The cost of the respective asset is not increased by borrowing costs in periods when there is no active development of the asset.

When the assets are ready for their intended use, they are reclassified to the appropriate category of property, plant and equipment and the calculation of depreciation starts. Assets under construction are regularly reviewed for impairment indicators.

2.5. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

All the LDz's tangible and intangible assets have a finite useful life (except for land and museum collections). Depreciable assets are reviewed whenever events or circumstances indicate that their book value may not be recoverable.

An impairment loss is recognised in the amount of the difference between the carrying amount of an asset and its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. To determine the impairment, the assets are grouped based on the lowest level for which cash flows can be identified (cash-generating units). Impairment losses are recognised in the Statement of Comprehensive Income.

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

2.6. FINANCIAL INSTRUMENTS

Classification of financial instruments

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

The classification of debt instruments depends on the LDz's business for managing financial assets, and whether the contractual cash flows consist solely of principal and interest payments (SPPI). If a debt instrument is held to collect cash flows, it may be carried at amortised cost if it meets the requirements of the SPPI. Financial assets whose cash flows do not meet the requirements of the SPPI must be measured at fair value through profit or loss (FVTPL) (e.g., financial derivatives). Embedded derivatives are not separated from financial assets, but are assessed for SPPI requirements when they are included in financial assets.

Equity instruments are always measured at fair value. However, Management has the opportunity to make an irrevocable choice to present fair value changes in other comprehensive income if the instrument is not held for trading. If an equity instrument is held for trading, changes in fair value should be presented in profit or loss.

Recognition and derecognition

Financial assets and liabilities are recognised when LDz becomes a party to the contract and has fulfilled the conditions of the transaction, i.e., at the date of the transaction.

Financial assets are derecognised when the Company's contractual obligations to the cash flows generated by the financial assets expire or when the Company transfers the financial asset to another party or transfers the significant risks and rewards of the asset. Regular-way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits to purchase or sell the asset.

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

Measurement

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

Financial assets at fair value through profit or loss

This category includes the equity instruments owned by the Company, under Other financial investments. These investments are presented within non-current assets, unless the Management intends to sell them within 12 months from the reporting date. The fair value of these financial assets is determined based on estimates made by the LDz's Management, which are based on the financial information of these investments. Changes in fair value are recognised in profit or loss.

Dividends on investments are recognised in the Statement of Comprehensive Income at the time when LDz becomes legally entitled to them.

Financial assets at amortised cost

Financial assets at amortised cost are debt instruments with a fixed or determinable schedule that are not held for trading and whose future cash flows consist solely of principal and interest payments. Financial assets at amortised cost include trade and other receivables, as well as amounts due from related companies and cash and cash equivalents. Financial assets at amortised cost are classified as current assets if the maturity is one year or less. If the payment term exceeds 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 subsequently carried at amortised cost using the effective interest rate method less impairment provisions.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, current account balances and short-term highly liquid investments that can be easily converted into cash if necessary and are not exposed to significant risk of changes in value.

Impairment of financial assets at amortised cost

Impairment is recognised according to the expected credit loss (ECL) model. The model has a three-step approach, which is based on changes in the credit quality of a financial asset compared to initial recognition. The Company recognises an immediate loss equal to 12-months ECL on initial recognition of a financial asset, even if the financial asset does not show any signs of impairment (for trade receivables a lifetime expected credit loss is recognised). In the event of a material increase in credit risk, impairment is measured using the asset's lifetime ECL instead of the 12-month ECL.

LDz applies operational allowances permitted by IFRS 9 for the measurement of trade receivables: trade receivables are grouped according to their credit quality and days past due, applying an expected credit loss percentage to each group. The ECL rates are estimated considering the last three years of payment history, adjusted to consider information on the present and future forecasts.

Receivable from related parties, as well as the loans issued to the related parties, are categorised into a separate group, for which ECL is calculated considering not only past experience, but also the credit rating of the ultimate owner, the Republic of Latvia, and projections of future developments. Loans granted to subsidiaries are considered to be assets with a credit risk that has not increased materially since the initial recognition, so the calculation of the ECL includes the expected credit losses over the next 12 months.

Impairment allowance is included in a separate allowance account and a loss is recognised in the Statement of Comprehensive Income. If, in a subsequent period after impairment is recognised, the amount of the loss decreases and the decrease can be related objectively to an event occurring after impairment was recognised (for example, the debtor's credit rating improves), a reversal of the previously recognised impairment loss is recognised in the Statement of Comprehensive Income.

Financial liabilities at amortised cost

Financial liabilities at amortised cost include borrowings from credit institutions, other borrowings, amounts due to suppliers and contractors and other creditors, as well as amounts due to related companies.

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

Borrowings

Borrowings are initially recognised at fair value, net of borrowing costs incurred. In subsequent periods, borrowings are measured at amortised cost using the effective interest method. The difference between the amount of proceeds, less borrowing costs, and the redemption value of the borrowing is gradually recognised in the Statement of Comprehensive Income, using the borrowing’s effective interest rate. This difference is recognised as finance expense.

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

Offsetting financial assets and liabilities

Financial assets and liabilities are netted against each other and presented on the balance sheet at net amounts when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to transfer the asset and settle the liability simultaneously.

2.7. INVENTORIES

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

When necessary, allowances are created for the write downs of obsolete, slow-moving or damaged inventories. For inventories without movement over one year, the allowances are recognised for the full amount. The amount is charged to the Statement of Comprehensive Income.

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

The share capital of LDz consists of ordinary registered shares. All shares of LDz are dematerialised. The nominal value of a share is one euro.

Dividends or payments to the shareholder of the Company for the use of the state capital shares are recognised as a liability in the financial statements in the period in which the amount of the dividend is approved by the shareholder of the Company.

2.9. OTHER RESERVES

A portion of the after-tax profit of the Company may be transferred to the reserve by a resolution of the shareholder’s meeting of LDz. For this purpose, an item *Other reserves* has been set up under equity. The appropriation and distribution of other reserves is the competence of the Shareholder’s Meeting.

2.10. ACCRUED UNUSED ANNUAL LEAVE EXPENSES

The accrued expenses for unused annual leave 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 insurance contributions.

2.11. PROVISIONS

Provisions are recognised when the Company has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability.

If the Company expects to receive reimbursement for the part or full amount of the provision, the reimbursement of those costs is recognised as a separate asset if, and only if it is virtually certain that the expenditure will be reimbursed. The costs associated with creating provision are recognised in the Statement of Comprehensive Income, net of amounts recovered.

2.12. CURRENT INCOME TAX LIABILITIES

Corporate income tax is calculated in accordance with the legislation effective at the end of the reporting period. The current legislation imposes a tax rate of 20 percent on the calculated taxable base, adjusted before the application of the tax rate by dividing the taxable base by a coefficient of 0.8. Corporate income tax, which is calculated on distribution of dividends, is presented separately in the Statement of Comprehensive Income, and otherwise as other operating expense. Deferred tax assets or liabilities do not arise because there is no difference between the book values of assets and liabilities and their tax base.

2.13. REVENUE RECOGNITION

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

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

Revenue from the sale of goods is recognised when control over them is transferred, i.e., when the Company has delivered the goods to the customer and the customer has accepted the goods and it is probable that the receivable is recoverable.

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

LDz provides the following services (recognised in accordance with IFRS 15):

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

In connection with the provision of railway infrastructure for public use, LDz has been granted a state budget subsidy to fully cover the costs of the passenger segment and the costs relating to passenger stations on lines where the carrying of passengers has been terminated. Revenue from the received grants (excluding VAT), is recognised in the period in which the services are rendered, up to the amount of the funding received, in accordance with IAS 20.

Maintenance of service points – services for the use of passenger stations and stops. LDz provides the following services at passenger stations: ticket counters, passenger notification systems, and facilities for passenger use. Revenue (excluding VAT) is recognised in the period in which the services are rendered, up to the amount of funding received, in accordance with IAS 20.

Ancillary services of the infrastructure operator, including service site services - freight wagon sorting and assembly services (processing of freight wagons with or without train formation), freight wagon maintenance and inspection - basic and ancillary freight wagon inspection services, routine suspension repairs, freight wagon storage services and freight wagon brokerage settlement services, etc. revenue is recognised in the period in which the services are rendered.

Electricity distribution and sale services – LDz provides electricity distribution and trading services to natural and legal persons, including its subsidiaries. The cost of electricity distribution (traction substations and overhead power lines) for the traction of passenger trains is included in the charge for using the public-use railway infrastructure and are not included in this service. LDz provides electricity sales services to electricity consumers by fulfilling the obligations laid down in the *Electricity Market Law*, the *Law On Regulators of Public Utilities* and Cabinet Regulation No. 635. LDz acts as the primary service provider, thus revenues and costs are recognised in gross value. Revenue is calculated by multiplying the tariff by the number of kilowatt hours consumed and is recognised in the period when consumption was made.

The **principal's services** include submission of the import summary declaration, customs procedures – transit clearance, temporary storage. In accordance with the agreement between LDz and LDZ CARGO SIA, the Company as the holder of the authorisation to use the transit procedure submits transit declarations, prepares temporary storage declarations, as well as performs other customs activities for the transit compliance. Revenue is recognised in the period when the services are provided.

Electronic communications services – data and electronic message transmission services, access to electronic communications network infrastructure. Revenue is recognised after the actual use of the network in the relevant reporting period.

Information technology services – services related to information systems for freight and passenger traffic, train movement, as well as business support, control and management information systems. Revenue is recognised in the period when the services are provided.

Construction services – own construction works on railway infrastructure objects. Revenue is recognised in the period when the services are provided.

Other services – these services include management services for dependent companies, infrastructure opeartor-specific services and various other small-scale services for legal and natural persons. Revenue is recognised in the period when the services are provided.

LDz provides the following services (recognised in accordance with IFRS 16):

Leases – the Company leases out buildings, structures, land and other property, plant and equipment that are not necessary for the operating activity, primarily to carriers and other companies and institutions related to the operation of the railway system. Leasing unused areas located in railway infrastructure facilities 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 objects. Revenue is recognised in the period when the services are provided.

Interest income (recognised in accordance with IFRS 9):

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

Income from fines

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

Dividend income

Dividend income recognised when a legal right to receive dividend arises.

2.14. LEASE ARRANGEMENT

Classification

At the inception of the contract, the Company assesses whether the contract is a lease or includes a lease. A contract is or contains a lease, if the contract conveys the right to control the use of an identifiable asset for a fixed time in exchange for consideration. To assess whether a contract is or contains a lease, the Company assesses whether:

The contract provides for the use of an identifiable asset. The asset can be specified explicitly or implicitly and must be physically separable or reflect the full capacity of the asset from a physically separable asset. If the supplier has a significant right to substitute the asset, the asset is not identifiable;

LDz is entitled to obtain all economic benefits from the use of the identifiable asset throughout its period of use;

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

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

Lessee's accounting

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

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs.

Depreciation is calculated on a straight-line basis from the lease start date to the end of the lease term unless it is planned to redeem the asset. The right-of-use asset is reduced periodically by the amount of impairment losses, if any, and adjusted for revaluation of the lease liabilities.

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

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

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

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

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

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

Lessor's 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 under operating leases are presented under property, plant and equipment at cost less depreciation. Depreciation is calculated on a straight-line basis. Rental income from operating leases and prepayments received from customers are recognised in the Statement of Comprehensive Income over the lease period.

Accounting for sublease transactions (LDz is the lessor)

In the event that, according to the contract, LDz is the lessor but part of the leased objects is subleased, a sublease transaction is created. Each sublease transaction is assessed for its compliance with the definition of a finance or operating lease, with the assessment made on the basis of the right-of-use asset. Accounting is performed according to the type of sublease determined - LDz is the lessor under an operating lease or LDz is the lessor under a finance lease. If the sublease is a finance lease, it is accounted for separately as a lease receivable. There is no netting against the liability.

Accounting for subleases:

- LDz, as an intermediate lessor, reduces the right-of-use asset by the finance lease receivable for that portion without recognising rental income from the sublease, but calculates interest income on the finance lease receivable;
- Over the term of the sublease, LDz, as an intermediate lessor, recognises depreciation expense on the right-of-use asset to the extent that it relates to the portion of the right-of-use asset not sublet, but recognises interest expense on the full lease liability.

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

Co-financing from the state budget and EU funds are recognised at fair value if there is reasonable certainty that the funds will be received, and it can be reasonably argued that the Company will be able to meet all conditions associated with the receipt of these funds.

Co-financing from the state budget and from EU funds that is attributable to assets (property, plant and equipment) is recognised in the balance sheet as Deferred income and recognised periodically in the Statement of Comprehensive Income in proportion to the depreciation of the relevant assets (property, plant and equipment) over their useful lives.

In accordance with Section 9(4) of the *Railway Law*, a column *2024 result before financial stability compensation* and a column *2023 result before financial stability compensation payments* are shown in the Statement of Comprehensive Income of LDz. Although not required by IFRS, the non-IFRS indicator is presented in the financial statements to provide readers with a clear picture of LDz's financial position without the receipt of financial stability payments.

LDz has been granted a state budget subsidy for the maintenance of unused crew places and a subsidy for the full cost of the passenger transport segment provided by LDz under a public service contract to the railway infrastructure operator in public use, which includes ineligible costs within the meaning of Article 4 of the European Commission Implementing Regulation EU 2015/909 of 12 June 2015 on the procedure for calculating costs directly incurred in the operation of train services, including, but not limited to, the costs of maintenance and renewal of fixed railway infrastructure (including passenger platforms) as well as the costs of train control, including signalling, regulation, dispatching and communication, and the provision of information on train movements, which are incurred independently of the train movements and are necessary to keep the trains running but which are not included in the minimum access service package charge. Revenue from the received grants (excluding VAT), is recognised in the period in which the services are rendered, up to the amount of the funding received, in accordance with IAS 20.

2.16. RELATED PARTIES

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

2.17. SUBSEQUENT EVENTS

The financial statements reflect events after the reporting date that provide additional information about the Company's financial position at the balance sheet date (adjusting events). If the nature of subsequent events is other than adjusting, they are disclosed in the notes to the financial statements only if they are significant.

2.18. EMPLOYEE BENEFITS

Social insurance and pension plan contributions

The Company makes compulsory national social insurance contributions to the state-funded pension scheme under Latvian laws. The state-funded pension scheme is a defined contribution pension plan, and the Company is required to make contributions of the prescribed statutory amount. The Company does not incur any additional legal or constructive obligations to make additional payments if the state-funded pension scheme is unable to meet its obligations to employees. Social insurance contributions are recognised as an expense on an accrual basis and recognised under Personnel expenses.

2.19. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are carried at historical cost, less impairment losses.

Revenue is recognized only to the extent LDz has received a share of profit of the subsidiary generated after the date of acquisition. Any amounts in excess of this profit are treated as recovery of investment and booked as a decrease in the historical cost of the investment.

If there is objective evidence of impairment of the investment in a subsidiary, the impairment loss is calculated as the difference between the carrying amount and the recoverable amount of the investment. Impairment loss may be reversed when the estimates underlying the impairment have changed since the last date of recognition of the impairment loss.

3. SIGNIFICANT ASSUMPTIONS AND JUDGEMENTS

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

The preparation of financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures in the notes to the financial statements at the reporting date, as well as the reported amounts of revenues and expenses during the reporting period. The actual results may differ from these estimates. The areas that are more likely to be affected by assumptions are Management's assumptions and estimates in determining the recoverable amount of assets and the amount of provisions as described below. Except as noted below, there are no other areas that require significant or complex assumptions or where the assumptions and estimates made are significant in the context of the financial statements.

Useful life of property, plant and equipment

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

Impairment of property, plant and equipment

An impairment loss was recognised for property, plant and equipment not used for operational purposes and for assets whose expected future economic benefits were significantly lower than their carrying amount. The most significant impairment amount is recognised for buildings, structures and tracks based on the future cash flows from the use of these assets in the provision of services.

In carrying out the impairment test, all LDz assets are divided into cash-generating units – geographical rail track lines. Each line has been assessed for indicators of impairment and lines with indicators of impairment have been subject to impairment test. The main indicators of impairment were the absence or decrease of passenger traffic in a particular line, as well as a significant decrease in freight traffic volumes. The impairment calculation resulted in impairment recognised in 11 lines for a total amount of EUR 67.8 million.

Future expected cash flows are determined based on the actual figures for 2024 and the budget for 2025, extrapolating them to the next five years. When discounting future projected cash flows, a weighted average cost of capital (WACC) of 7.47% is applied, determined as the weighted average cost of capital of the infrastructure operator. WACC, EBITDA, and future growth rate are the most important indicators affecting the impairment estimate. A WACC of 8.47% (up 1%) would increase the impairment by EUR 49 million. On the other hand, at a WACC of 6.47% (1% decrease), no impairment would be recognised. A 0.5% decrease in the future growth rate would trigger an impairment of EUR 53 million. A 5% decrease in EBITDA would trigger an impairment of EUR 46 million and a 10% decrease would trigger an impairment of EUR 61 million.

For a future growth rate increase of 0.57% or an EBITDA increase of 10.35%, no impairment would be recognised.

In addition to the assessment at the level of cash-generating units, an overall impairment assessment has also been carried out, determining LDz's total value in use.

In this calculation, WACC is also the key estimate influencing the impairment. Assessing the sensitivity of the calculation to changes in WACC, it has been concluded that an impairment should be recognised for WACC above the 6.98% threshold.

Given that the fixed assets have been financed to a large extent by various EU and national co-financing instruments, the write-down of the asset value should be matched by a proportional write-down of the amount of deferred income attributable to the asset. The rationale for this approach is that the deferred income is directly linked to the fixed assets concerned and its direct purpose was to finance the creation of these assets. It is also important to underline that all the obligations on the part of LDz to receive the financing have been fulfilled.

The main reason for the impairment of fixed assets in 2024 is a significant further decline in freight traffic. The assessment of the recoverable value of fixed assets, which was carried out when preparing the 2023 financial statements, based on the forecasts and assumptions about the development of freight traffic available at that time, indicated that no impairment was necessary. Additional sanctions against Russia and Belarus implemented in late spring and early summer 2024 reduced the previously forecasted freight flow, as a result of which the 2024 freight volume fell from the 16.5 million tonnes forecast at the beginning of 2024 to 11.5 million tonnes, and the expected freight volume in 2025 is around 9.5 million tonnes. Since these circumstances arose and became known in 2024, the entire impairment is attributable to the 2024 financial result.

Financial balancing payment

The main objective of LDz is to ensure the management of the state public-use railway infrastructure and safe, high-quality and efficient railway and logistics services in the interests of the state and the Latvian national economy. In order to compensate for losses incurred in fulfilling this objective, in accordance with Section 9, Paragraph 4 of the Railway Law, it is expected to receive state funding for ensuring the financial stability of SJSC Latvijas dzelzceļš, since the state shall ensure that in the profit and loss account of the state public-use railway infrastructure operator revenue from infrastructure charges, profit from other commercial activities, non-refundable revenue from private sources, as well as state financing (including, where applicable, also from advances received from the state) are at least in balance with infrastructure expenditure.

In the reporting year, the financing required for ensuring financial stability is recognised in other revenue in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. These principles require the recognition of a government grant at the point in time when there is reasonable assurance that the conditions attached to the receipt of the grant have been fulfilled. In addition, grants relating to the recovery of costs should be recognised in the period in which the costs are incurred, provided there is reasonable assurance that the grant will be received in the future. Finally, the fact that the financial stability payment from previous years has been received and that the financial stability payment for 2024 is included in the 2025 state budget in the amount of EUR 26 million confirms the validity of the revenue recognition for 2024.

4. REVENUE

(EUR)

TYPES OF ACTIVITY	2024	2023
Revenue from contracts with customers (IFRS 15):		
Revenue recognised over time:		
Charges for the use of the public-use railway infrastructure	41 067 667	43 499 341
Ancillary services of the infrastructure operator	15 224 748	19 854 268
Specific services related to infrastructure maintenance and repair	1 333 646	1 278 043
Services in passenger stations	1 094 522	1 163 780
Principal's services	212 971	397 221
Construction services	9 213	634 922
Other services	2 967 036	3 549 684
Total recognised over time	*61 909 803*	*70 377 259*
Revenue recognised at a point in time		
Electricity distribution and trading services	8 112 386	17 412 074
Information technology services	3 905 485	4 002 900
Electronic communications services	612 662	760 112
Total income recognised at a point in time	*12 630 533*	*22 175 086*
Total revenue from customer contracts (IFRS 15)	**74 540 336**	**92 552 345**
Other revenue (IFRS 16):		
Lease services	**3 876 030**	**4 585 845**
Other revenue (IAS 20)		
Revenue from railway infrastructure maintenance (State budget funding)	50 473 523	35 634 257
Financial stability payment*	26 012 914	32 439 157
Revenue from maintenance of service points (State budget funding)	197 998	197 998
Total other revenue (IAS 20)	**76 684 435**	**68 271 412**
Total	**155 100 801**	**165 409 602**

In the reporting year, the financing required for ensuring financial stability is recognised in other revenue in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. These principles require the recognition of a government grant at the point in time when there is reasonable assurance that the conditions attached to the receipt of the grant have been fulfilled. In addition, grants relating to the recovery of costs should be recognised in the period in which the costs are incurred, provided there is reasonable assurance that the grant will be received in the future.

The criteria for LDz to receive the financial stability payment are the non-fulfilment of the financial stability conditions provided for in Section 9, Paragraph 4 of the *Railway Law*. Taking into account the fact that in 2024 LDz did not fulfil the intended conditions for financial stability, the criteria for receiving financial stability payments under the procedures laid down in the Railway Law were fulfilled accordingly. Financial stability payments are recognised as revenue for 2024. The state budget funds to ensure the financial stability of LDz for 2024 in the amount of EUR 26 012 914 are foreseen in the law *On the State Budget for 2025 and Budget Framework for 2025, 2026, and 2027*.

The required payment of financial stability of EUR 26 012 914, to be received in the future, recognised as *Accrued income* in the Statement of Financial Position based on the obligations and obligations specified in Section 9, Paragraph 4 of the *Railway Law*. In 2024, to ensure financial stability, LDz received from the state budget EUR 14 359 thousand of uncovered payments for 2022 and EUR 32 439 thousand for 2023, which was previously recognised under accrued income.

On 19 December 2024, the Shareholders' Meeting decided to increase the share capital of LDz by EUR 46 798 155 (Minutes of Decision No A1.1./7-3, item 3 *On increasing the share capital of SJSC Latvijas dzelzceļš and amendments to the Articles of Association*). On 27 December 2024, pursuant to the decision of the Enterprise Register of the Republic of Latvia No 6-12/112157, changes in the subscribed and paid-up share capital were registered in the Commercial Register. The share capital was increased by investing state budget funds in the amount of EUR 46 798 155 in accordance with the Cabinet of Ministers Order No 1120 of 17 December 2024 in order to ensure the financial stability of the state public use railway infrastructure operator (*SJSC Latvijas dzelzcels*) for 2022 (the uncovered part) and 2023. As the purpose of the share capital increase was to cover the financial stability for 2022 and 2023, the corresponding decrease in the financial stability receivable previously recognised under accrued income has been reflected as a decrease in retained earnings, thus ensuring that this element of the transaction is also reflected as a transaction with the shareholder (notional distribution of retained earnings).

In order to show the total recognised financial stability payment in the financial statements, an additional column *2024 result before financial stability compensation* and a column *2023 result before financial stability compensation* are presented in the Statement of Comprehensive Income of LDz. This disclosure is not required by the IFRS, but is provided as an additional indicator for the purpose of disclosure in the financial statements of the profit or loss of LDz in order to receive public funding for the financial stability of SJSC Latvijas dzelzceļš in accordance with Section 9(4) of the Railway Law to compensate for the loss.

5. OTHER INCOME

(EUR)

	2024	2023
Gradual recognition of deferred income	19 151 258	19 347 902
Gain on sale of inventories	627 264	1 864 235
Proceeds from compensation for damage	427 056	149 180
Gain on disposal of fixed assets	356 799	351 748
Fines and late payment penalties	110 523	271 257
ECL allowances (see Note 18)	30 588	151 444
Adjustment of other provisions (see Note 24)	14 683	-
Exchange rate fluctuations	-	144 555
Funding for a project to implement work-based learning	-	25 091
Adjustment in the allowance for doubtful debts	-	4 106
Other income	472 081	523 523
Total	**21 190 252**	**22 833 041**

6. COST OF GOODS, MATERIALS, AND SERVICES

(EUR)

	2024	2023
Electricity	10 850 965	24 064 241
Cost of materials	3 934 110	5 573 544
Cost of security services and maintenance of security equipment	4 843 953	4 556 614
Rent, utilities, boiler house maintenance	4 494 532	3 740 845
Charges for shunting work	2 871 391	3 679 528
Cost of current repairs of property, plant and equipment and other repairs	3 111 956	3 455 162
Heating and fuel	2 854 376	3 119 203
Information software maintenance, licence fees	2 591 982	2 705 623
Costs of railway administration bodies	2 292 589	2 292 589
Charges for locomotives and crews working in economic traffic	1 204 859	1 443 804

Costs related to telecommunications services	644 779	745 098
Costs of vehicle maintenance, registration, roadworthiness tests	757 724	728 985
Real estate tax	546 242	578 967
Third party liability insurance costs	438 975	449 715
Membership fees for transnational organisations	290 578	328 576
Other expenses*	2 612 437	2 746 181
Total	**44 341 448**	**60 208 675**

** Other costs include fees for services rendered by KPMG Baltics SIA (PricewaterhouseCoopers SIA in 2023), a commercial firm of certified auditors:*

(EUR)

	2024	2023
Audit of financial statements	88 000	51 610

7. PERSONNEL EXPENSES

(EUR)

	2024	2023
Salary expenses	65 259 554	66 166 385
Statutory social security contributions	15 944 626	15 963 833
Other social security costs	1 918 396	1 901 442
Severance pay	2 606 650	1 454 339
Changes in accrued liabilities for vacations	(238 832)	339 018
Supplementary pension insurance for employees	297 605	294 568
Other personnel expenses	103 311	104 202
Total	**85 891 310**	**86 223 787**
of which remuneration of members of the Company's Board and Council	486 246	422 716
incl. remuneration for work	*393 435*	*342 031*
state compulsory social insurance contributions	*92 811*	*80 685*

8. DEPRECIATION, AMORTISATION, AND IMPAIRMENT

(EUR)

	2024	2023
Depreciation and amortisation	44 893 961	44 423 115
Impairment of property, plant and equipment and intangible assets	31 212 786	-
Depreciation of right-of-use assets	1 474 453	1 563 392
Changes in provisions for obsolete materials (see Note 20)	160 935	(117 058)
Total	**77 742 135**	**45 869 449**

9. OTHER EXPENSES

(EUR)

	2024	2023
Losses on disposal of property, plant and equipment and assets under construction	924 820	647 019
Collective bargaining agreement costs of *Latvijas Dzelzceļš Group*	487 387	382 984
Expenditure on damages	456 955	169 196
Adjustment of other provisions (see Note 24)	60 000	20 562
Adjustment in the allowance for doubtful debts	51 183	-
Corporate income tax on deemed distribution of profits	-	19 396

Foreign currency exchange rate fluctuation	878	15 156
Exchange rate fluctuations	16 646	-
Fines and late payment penalties	51 209	5 354
Social infrastructure maintenance costs	2 071	107
Other charges	192 040	176 557
Total	**2 243 189**	**1 436 331**

10. INCOME FROM INVESTMENTS IN SUBSIDIARIES

(EUR)

	2024	2023
Dividends received from LDz subsidiaries:	**4 841 243**	**9 089 691**
SIA LDZ CARGO	3 068 112	8 158 549
SIA LDZ ritošā sastāva serviss	1 233 832	376 252
SIA LDZ Loģistika	264 373	396 636
SIA LDZ apsardze	242 431	116 330
AS LatRailNet	32 495	41 924

11. FINANCE INCOME AND EXPENSES, NET

(EUR)

	2024	2023
Finance income	**760 178**	**917 562**
Other interest income	760 178	917 562
Finance expenses	**(4 521 713)**	**(4 511 654)**
Interest payments on loans	(4 870 921)	(4 055 550)
Capitalised interest payments on loans	1 006 378	-
Interest expense on lease transactions	(59 310)	(52 282)
Late payment interest for extending the tax payment deadline	(597 860)	(403 822)
Finance expenses, net	**(3 761 535)**	**(3 594 092)**

12. PROPERTY, PLANT AND EQUIPMENT

(EUR)

	LAND PLOTS	BUILDINGS, STRUCTURES, AND PERENNIAL PLANTATIONS	TRACKS	LEASEHOLD IMPROVEMENTS	PLANT AND MACHINERY	COMPUTERS, COMMUNICATION EQUIPMENT, PHOTOCOPIERS, AND FITTINGS	OTHER PROPERTY, PLANT AND EQUIPMENT	CONSTRUCTION IN PROGRESS	TOTAL
Historical cost at 01.01.2024	**851 410**	**206 532 246**	**864 813 601**	**105 292**	**323 791 287**	**36 530 618**	**33 817 154**	**56 238 644**	**1 522 680 252**
Acquisition and completion of property, plant and equipment	-	12 974 470	14 468 496	-	18 475 270	920 876	846 804	11 160 223	58,846,139**
Transfers	-	11 068	-	-	(10 313)	11 221	(11 976)	-	-
Disposal of property, plant and equipment	(53 215)	(2 780 867)	(1 575 283)	-	(1 047 363)	(324 934)	(594 183)	-	(6 375 845)
Cost at 31.12.2024	**798 195**	**216 736 917**	**877 706 814**	**105 292**	**341 208 881**	**37 137 781**	**34 057 799**	**67 398 867**	**1 575 150 546**
Accumulated depreciation on 01.01.2024	**-**	**127 729 422**	**579 174 564**	**89 685**	**194 327 234**	**28 847 416**	**26 265 272**	**-**	**956 433 593**
Amortization charge	-	4 565 540	23 380 760	7 803	11 739 871	3 356 531	1 138 043	-	44 188 548
Transfers	-	9 507	-	-	(8 815)	234	(926)	-	-
Disposals	-	(2 155 783)	(1 354 548)	-	(839 356)	(322 894)	(563 120)	-	(5 235 701)
Accumulated depreciation at 31.12.2024	**-**	130 148 686	**601 200 776**	**97 488**	**205 218 934**	**31 881 287**	**26 839 269**	**-**	**995 386 440**
Impairment as at 01.01.2024	**37 801**	**3 649 819**	**22 798 149**	**-**	**537 352**	**483 601**	**139 155**	**-**	**27 645 877**
Adjustment for written off tangible assets	**(37 801)**	(209 619)	**(23 468)**	-	(49 228)	**-**	(870)	-	(320 986)
Impairment of property, plant and equipment in 2024	10 724	3 856 671	55 028 881	-	8 749 400	36 545	107 656	-	67 789 877*
Impairment as at 31.12.2024	**10 724**	**7 296 871**	**77 803 562**	**-**	**9 237 524**	**520 146**	**245 941**	**-**	**95 114 768**
Carrying value as at 01.01.2024	**813 609**	**75 153 005**	**262 840 888**	**15 607**	**128 926 701**	**7 199 601**	**7 412 727**	**56 238 644**	**538 600 782**
Balance at 31.12.2024	**787 471**	79 291 360	**198 702 476**	**7 804**	**126 752 423**	**4 736 348**	**6 972 589**	**67 398 867**	**484 649 338**

* incl. EUR 31 212 786 that impact the result of the Statement of Comprehensive Income (see Note 8) and EUR 36 577 091 to be covered from revenue of future periods (see Note 26).

**- incl. acquisition and execution of works in 2024 EUR 57 927 042

More detailed information on the calculation of impairment, assumptions and sensitivity analysis is provided in the section “Impairment of property, plant and equipment” in Appendix 3 “Significant assumptions and judgments”.

During the reporting period, 15 thousand hectares of land registered in the name of the Ministry of Transport was used by LDz (mostly it is a railway division strip, which is part of the railway public-use infrastructure and is intended for the placement of railway infrastructure objects in order to ensure the development and safe operation of the railway infrastructure).

In 2024, the cost of property, plant and equipment includes capitalised wages of EUR 1 923 419 and social security costs of EUR 452 897 (2023: wages of EUR 1 347 214 and social security costs of EUR 316 336) and capitalised interest of EUR 1 006 379 (2023: 0). Recognised as advances are EUR 13 217 562 (EUR 15 881 310 in 2023), In 2024, *EUR 55 858 297 (2023: EUR 60 705 677) were spent on the renewal, modernisation and acquisition of property, plant and equipment, intangible investments and the construction of new facilities.*

(EUR)

	LAND PLOTS	BUILDINGS, STRUCTURES, AND PERENNIAL PLANTATIONS	TRACKS	LEASEHOLD IMPROVEMENTS	PLANT AND MACHINERY	COMPUTERS, COMMUNICATION EQUIPMENT, PHOTOCOPIERS, AND FITTINGS	OTHER PROPERTY, PLANT AND EQUIPMENT	CONSTRUCTION IN PROGRESS	TOTAL
Historical cost at 01.01.2023	**851 290**	**205 337 694**	**858 955 739**	**105 292**	**319 480 577**	**39 783 473**	**32 368 060**	**11 757 601**	**1 468 639 726**
Acquisition and completion of property, plant and equipment	120	3 852 290	7 398 330	-	4 992 886	2 770 791	1 766 945	45 046 704	65 828 066
Reclassified (see Note 14)	-	(190)	-	-	(41 717)	(4 840 528)	190	(86 806)	(4 969 051)
Disposal of property, plant and equipment	-	(2 657 548)	(1 540 468)	-	(640 459)	(1 183 118)	(318 041)	(478 855)	(6 818 489)
Cost at 31.12.2023	**851 410**	**206 532 246**	**864 813 601**	**105 292**	**323 791 287**	**36 530 618**	**33 817 154**	**56 238 644**	**1 522 680 252**
Accumulated depreciation on 01.01.2023	**-**	**125 866 180**	**556 373 136**	**81 881**	**183 448 467**	**31 293 174**	**25 425 805**	**-**	**922 488 643**
Amortization charge	-	4 045 872	24 036 459	7 804	11 424 446	3 212 334	1 140 971	-	43 867 886
Reclassified (see Note 14)	-	(181)	-	-	(10 928)	(4 528 608)	181	-	(4 539 536)
Disposals	-	(2 182 449)	(1 235 031)	-	(534 751)	(1 129 484)	(301 685)	-	(5 383 400)
Accumulated depreciation at 31.12.2023	**-**	**127 729 422**	**579 174 564**	**89 685**	**194 327 234**	**28 847 416**	**26 265 272**	**-**	**956 433 593**
Impairment as at 01.01.2023	**37 801**	**3 767 694**	**22 811 564**	**-**	**589 337**	**483 681**	**149 648**	**-**	**27 839 725**
Impairment adjustment for disposed property, plant and equipment	-	(117 875)	(13 415)	-	(51 985)	(80)	(10 493)	-	(193 848)
Impairment as at 31.12.2023	**37 801**	**3 649 819**	**22 798 149**	**-**	**537 352**	**483 601**	**139 155**	**-**	**27 645 877**
Carrying value as at 01.01.2023	**813 489**	**75 703 820**	**279 771 039**	**23 411**	**135 442 773**	**8 006 618**	**6 792 607**	**11 757 601**	**518 311 358**
Balance at 31.12.2023	**813 609**	**75 153 005**	**262 840 888**	**15 607**	**128 926 701**	**7 199 601**	**7 412 727**	**56 238 644**	**538 600 782**

13. RIGHT-OF-USE ASSETS

(EUR)

	RIGHT-OF-USE LAND PLOTS	RIGHT-OF-USE BUILDINGS AND STRUCTURES	RIGHT-OF-USE TRACKS	RIGHT-OF-USE PLANT AND MACHINERY	RIGHT-OF-USE COMPUTERS, COMMUNICATION EQUIPMENT, PHOTOCOPIERS, AND FITTINGS	RIGHT-OF-USE OTHER PROPERTY, PLANT AND EQUIPMENT	TOTAL
Historical cost at 01.01.2024	**496 629**	**4 481 245**	**-**	**1 507**	**-**	**3 941 758**	**8 921 139**
New lease agreements	10 173	455 236	-	-	-	881 971	1 347 380
Contract modifications	(316 685)	(2 286 823)	-		-	(2 699 258)	(5 302 766)
Termination of contracts	(17 697)	(776 818)	-	(1 507)	-	(39 490)	(835 512)
Cost at 31.12.2024	**172 420**	**1 872 840**	**-**	**-**	**-**	**2 084 981**	**4 130 241**
Accumulated depreciation on 01.01.2024	**310 213**	**2 375 581**	**-**	**1 507**	**-**	**2 989 465**	**5 676 766**
Amortization charge	56 757	499 989	-	-	-	917 707	1 474 453
Disposals	(317 519)	(2 696 153)	-	(1 507)	-	(3 029 080)	(6 044 259)
Accumulated depreciation at 31.12.2024	**49 451**	**179 417**	**-**	**-**	**-**	**878 092**	**1 106 960**
Carrying value as at 01.01.2024	**186 416**	**2 105 664**	**-**	**-**	**-**	**952 293**	**3 244 373**
Balance at 31.12.2024	**122 969**	**1 693 423**	**-**	**-**	**-**	**1 206 889**	**3 023 281**

(EUR)

	RIGHT-OF-USE LAND PLOTS	RIGHT-OF-USE BUILDINGS AND STRUCTURES	RIGHT-OF-USE TRACKS	RIGHT-OF-USE PLANT AND MACHINERY	RIGHT-OF-USE COMPUTERS, COMMUNICATION EQUIPMENT, PHOTOCOPIERS, AND FITTINGS	RIGHT-OF-USE OTHER PROPERTY, PLANT AND EQUIPMENT	TOTAL
Historical cost at 01.01.2023	**473 818**	**4 708 574**	**2 497 592**	**629 805**	**1 019 409**	**4 017 770**	**13 346 968**
New lease agreements	-	-	-	-	-	108 488	108 488
Contract modifications	22 811	(227 329)	-	-	-	(184 500)	(389 018)
Termination of contracts	-	-	(2 497 592)	(628 298)	(1 019 409)	-	(4 145 299)
Cost at 31.12.2023	**496 629**	**4 481 245**	**-**	**1 507**	**-**	**3 941 758**	**8 921 139**
Accumulated depreciation on 01.01.2023	**247 432**	**2 079 252**	**2 004 510**	**505 775**	**970 224**	**2 350 659**	**8 157 852**
Amortization charge	69 867	496 265	74 759	18 731	49 185	855 730	1 564 537
Disposals	(7 086)	(199 936)	(2 079 269)	(522 999)	(1 019 409)	(216 924)	(4 045 623)
Accumulated depreciation at 31.12.2023	**310 213**	**2 375 581**	**-**	**1 507**	**-**	**2 989 465**	**5 676 766**
Carrying value as at 01.01.2023	**226 386**	**2 629 322**	**493 082**	**124 030**	**49 185**	**1 667 111**	**5 189 116**
Balance at 31.12.2023	**186 416**	**2 105 664**	**-**	**-**	**-**	**952 293**	**3 244 373**

14. INTANGIBLE ASSETS

(EUR)

LICENCES AND RIGHTS	2024	2023
Historical cost at the beginning of the year	**17 319 720**	**13 954 861**
Purchase and completion	1 100 920*	883 823
Reclassified from property, plant and equipment	-	4 882 245
Disposals	(96 118)	(2 401 209)
Historical value at the end of the year	**18 324 522**	**17 319 720**
Accumulated amortisation at the beginning of the year	**14 424 534**	**11 263 830**
Amortization charge	843 230	1 022 377
Reclassified from property, plant and equipment	-	4 539 536
Disposals	(96 118)	(2 401 209)
Accumulated amortisation at the end of the year	**15 171 646**	**14 424 534**
Weakening	16 314	**16 314**
Carrying amount at the beginning of the year	**2 878 872**	**2 674 717**
Carrying amount at the end of the year	**3 136 562**	**2 878 872**
Intangible assets in unfinished construction objects	448 648	604 026
Intangible assets	**3 585 210**	**3 482 898**

** - including acquisition and execution of works in 2024 EUR 945 542 (2023: EUR 1 236 746).*

15. INVESTMENT IN SUBSIDIARIES

SUBSIDIARIES

SIA LDZ CARGO	
Unified registration number	40003788421
Address	Dzirnavu iela 147, k-1, Riga, LV-1050
Shareholding, %	100% shareholder – SJSC Latvijas dzelzceļš
Reporting year	01.01.2024 – 31.12.2024
SIA LDZ ritošā sastāva serviss	
Unified registration number	40003788351
Address	Vilhelma Purvīša iela 21, Riga, LV-1050
Shareholding, %	100% shareholder – SJSC Latvijas dzelzceļš
Reporting year	01.01.2024 – 31.12.2024
SIA LDZ apsardze	
Unified registration number	40003620112
Address	Zasas iela 5-3, Riga, LV-1057
Shareholding, %	100% shareholder – SJSC Latvijas dzelzceļš
Reporting year	01.01.2024 – 31.12.2024
SIA LDZ Loģistika	
Unified registration number	40003988480
Address	Dzirnavu iela 147, k-2, Riga, LV-1050
Shareholding, %	100% shareholder – SJSC Latvijas dzelzceļš
Reporting year	01.01.2024 – 31.12.2024
AS LatRailNet	
Unified registration number	40103361063
Address	Pērses iela 8, Riga, LV-1011
Shareholding, %	100% shareholder – SJSC Latvijas dzelzceļš
Reporting year	01.01.2024 – 31.12.2024

16. CARRYING AMOUNT OF INVESTMENTS IN SUBSIDIARIES

(EUR)

SUBSIDIARY	HOLD., %	31.12.2024	31.12.2023
SIA LDZ CARGO	100	80 492 369	80 492 369
SIA LDZ ritošā sastāva serviss	100	29 351 905	29 351 905
SIA LDZ apsardze	100	298 803	298 803
AS LatRailNet	100	35 571	35 571
SIA LDZ Loģistika	100	638 000	638 000
Total	**X**	**110 816 648**	**110 816 648**

Long-term financial investments in the equity of subsidiaries are measured in the accounting records of LDz at their historical cost less accumulated impairment, if any.

17. RESULTS OF SUBSIDIARIES FOR 2024

(EUR)

SUBSIDIARY	HOLD., %	PROFIT/(LOSS) OF 2024	PROFIT OF 2023	SHAREHOLDER'S EQUITY	
				31.12.2024	31.12.2023
SIA LDZ CARGO	100	29 219	3 068 112	114 727 071	117 765 964
SIA LDZ ritošā sastāva serviss	100	(2 474 599)	1 233 832	33 505 496	37 213 927
SIA LDZ apsardze	100	248 905	242 431	868 696	862 222
AS LatRailNet	100	163 524	64 990	293 806	162 777
SIA LDZ Loģistika	100	(415 764)	264 373	1 189 270	1 869 407
Total	**x**	**(2 448 715)**	**4 873 738**	**150 584 339**	**157 874 297**

The Latvijas Dzelzceļš Group manages the public-use railway infrastructure, provides rail transport services and related services. The Group includes: the Group Parent Company – State Joint Stock Company Latvijas dzelzceļš and Group companies SIA LDZ CARGO, SIA LDZ ritošā sastāva serviss, SIA LDZ apsardze, SIA LDZ Loģistika, and AS LatRailNet.

A unified Group strategy and objectives have been developed, ensuring optimal allocation of production and investment resources between business lines and Group companies, coordination of decision-making and effective control of their implementation. LDz represents the Group's interests at the international level.

LDz provides services referred to in the Section 12^1, Paragraph 1 of the Railway Law, i.e. the public-use railway minimum access service package and access to the public-use railway infrastructure connecting it with the service points, as well as freight wagon processing, wagon technical maintenance and inspection services, electricity distribution and trade services, rental services, information technology services, electronic communication services, as well as other services.

LDZ CARGO SIA provides domestic and international freight transportation services and provides other services related to rail freight transportation.

LDZ ritošā sastāva serviss SIA performs maintenance and repairs of the railway rolling stock, equips and modernizes locomotives, provides shunting diesel locomotive and track machinery rental services.

LDZ Loģistika SIA provides intermodal freight forwarding and logistics services, as well as attracting new freight flows and organising rail freight transport between Europe and Asia.

SIA LDZ apsardze provides physical security services for various objects and railway cargoes, designs and assembles various security, fire safety, and video surveillance systems, which are subject to technical maintenance and maintenance during operation, as well as monitor the received alarm signals.

LatRailNet AS performs the essential functions of a railway infrastructure operator. The company makes decisions on railway infrastructure capacity allocation, train path allocation, access charge calculation system, charging, assessment and collection, as well as cooperation with other performers of essential functions on international connections.

18. LOANS TO RELATED COMPANIES

The balance of the loan granted to LDZ ritošā sastāva serviss SIA to finance the modernisation of diesel locomotives as at 31 December 2024 is EUR 11 759 749.

The table below reflects movements in the loan balances:

(EUR)

LOANS TO RELATED COMPANIES	BALANCE AT 01.01.2024 (GROSS CARRYING AMOUNT)	RECLASSIFIED BASED ON MATURITY	REPAID	BALANCE AT 31.12.2024 (GROSS CARRYING AMOUNT)	ECL ALLOWANCES*	BALANCE AT 31.12.2024 (NET CARRYING AMOUNT)
Non-current portion	11 759 749	(3 838 272)	-	7 921 477	-	7 921 477
Current portion	4 218 971	3 838 272	(4 218 971)	3 838 272	-	3 838 272
Total	**15 978 720**	**-**	**(4 218 971)**	**11 759 749**	**-**	**11 759 749**

(EUR)

LOANS TO RELATED COMPANIES	BALANCE AT 01.01.2023 (GROSS CARRYING AMOUNT)	RECLASSIFIED BASED ON MATURITY	REPAID	BALANCE AT 31.12.2023 (GROSS CARRYING AMOUNT)	ECL ALLOWANCES*	BALANCE AT 31.12.2023 (NET CARRYING AMOUNT)
Non-current portion	17 478 721	(5 718 972)	-	11 759 749	(19 348)	11 740 401
Current portion	4 218 971	5 718 972	(5 718 972)	4 218 971	(11 240)	4 207 731
Total	**21 697 692**	**-**	**(5 718 972)**	**15 978 720**	**(30 588)**	**15 948 132**

** In 2024, the allowance for expected credit losses was revised downwards by EUR 30 588. The decrease in the allowance was mainly due to a decrease in the loan balance.*

19. OTHER LONG-TERM FINANCIAL INVESTMENTS

(EUR)

NAME OF THE COMPANY	SHARES, %	CARRYING AMOUNT	
		31.12.2024	31.12.2023
MIRIGO, Belarus and Latvian joint venture	3.0	10 126	10 126
SIA STREK	5.84	73 982	73 982
Gross carrying amount	**x**	**84 108**	**84 108**
Impairment of financial investments	**x**	**(10 126)**	**(10 126)**
Net carrying amount	**x**	**73 982**	**73 982**

20. INVENTORIES

(EUR)

	31.12.2024	31.12.2023
Road surface materials	4 510 499	4 247 009
Other materials	1 718 626	1 664 358
Spare parts	200 529	234 185
Heating and fuel	248 232	272 521
Other inventories and work-in-progress	4 433	3 625
Gross carrying amount	**6 682 319**	**6 421 698**
Allowances for write-downs of inventories	(2 495 072)	(2 334 137)
Net carrying amount	**4 187 247**	**4 087 561**

21. TRADE AND OTHER RECEIVABLES

(EUR)

	31.12.2024	31.12.2023
Trade receivables	4 352 357	4 079 144
Doubtful receivables	842 321	799 439
Other receivables	1 388 265	1 747 078
Gross carrying amount	**6 582 943**	**6 625 661**
Allowances for expected credit losses	(842 321)	(799 439)
Net carrying amount	**5 740 622**	**5 826 222**

(EUR)

MOVEMENT TABLE OF ALLOWANCES FOR EXPECTED CREDIT LOSSES	2024	2023
Allowances for expected credit losses at the beginning of the year	799 439	822 796
Reduction of allowances due to receivable recovery	(15 578)	(120 549)
Reduction of allowances due to the write-off of receivables	(8 301)	(19 251)
Additional allowances created	66 761	116 443
Allowances for expected credit losses at the end of the year	**842 321**	**799 439**

In order to estimate the expected credit losses, receivables were grouped according to their risk characteristics and days past due (details are also provided in Note 28). The expected loss rates are based on historical repayment rates determined as the ratio of lost receivables to relevant revenue over the past 36 months (counting from 31 December 2024 or 1 January 2024, respectively). Historical loss indicators were adjusted to reflect current and forecasted information on macroeconomic factors affecting buyers' ability to pay to LDz. GDP forecasts are considered the most significant factor since they are most directly affected by changes in bad receivables.

In carrying out these calculations, on 31 December 2024 and 1 January 2024, allowances for trade receivables that were not overdue or were overdue for less than six months late have been immaterial, thus being recognised at zero in the financial statements.

According to the Company's accounting policy, for trade receivables that are more than six months past due, an allowance is usually made for expected credit losses of 100%, making adjustments only to reflect the possible recoverability of such receivables. Similar calculations were made for amounts due from related parties, loans to related parties, other debtors, as well as for cash and cash equivalents, except that these calculations were based not on historical experience, but on the default rates of external credit rating agencies for similar borrowers or groups of borrowers. This approach has been chosen because LDz has no historical data regarding losses for these groups of financial assets. As a result of the calculations, as at 31 December 2023 it was concluded that the credit quality of these assets had deteriorated and therefore an expected credit loss of EUR 31 thousand was recognised. On the other hand, the credit quality of the subsidiaries and the total loan balance at 31 December 2024 were assessed and the amount of credit losses recognised was nil.

22. CASH AND CASH EQUIVALENTS

(EUR)

	31.12.2024	31.12.2023
Cash in bank	60 122 576	25 502 240
Cash at hand	1 069	2 786
Total	**60 123 645**	**25 505 026**

23. SHARE CAPITAL

Registered and paid-up share capital

The share capital of LDz is EUR 374 419 791, consisting of three hundred and seventy-four million four hundred and nineteen thousand seven hundred and ninety-one shares with a par value of EUR 1.00 (one EUR) per share (31 December 2023: EUR 327 621 636). On 19 December 2024, the Shareholders' Meeting decided to increase the share capital of LDz by EUR 46 798 155 (Minutes of Decision No A1.1./7-3, item 3 *On increasing the share capital of SJSC Latvijas dzelzceļš and amendments to the Articles of Association*). On 27 December 2024, pursuant to the decision of the Enterprise Register of the Republic of Latvia No 6-12/112157, changes in the subscribed and paid-up share capital were registered in the Commercial Register. The share capital was increased by investing state budget funds in the amount of EUR 46 798 155 in accordance with the Cabinet of Ministers Order No 1120 of 17 December 2024 in order to ensure the financial stability of the state public use railway infrastructure operator (*SJSC Latvijas dzelzcels*) for 2022 (the uncovered part) and 2023.

All shares are held by the Republic of Latvia and are fully paid up. The holder of the state shares is the Ministry of Transport. All shares of LDz rank equal with respect to dividends, liquidation quota, and voting rights in the Shareholder's meeting.

24. PROVISIONS

(EUR)

	31.12.2024	31.12.2023
Provisions for costs of injuries at work	160 785	164 379
Other provisions	118 833	118 833
Total non-current portion	**279 618**	**283 212**
Provisions for termination benefits	1 138 278	1 205 716
Other provisions	60 000	11 089
Total current portion	**1 198 278**	**1 216 805**
Total	**1 477 896**	**1 500 017**

Movement table of provisions by type of provision in 2024

(EUR)

	01.01.2024	(DECREASE) IN PROVISIONS	INCREASE IN PROVISIONS	31.12.2024
Provisions for termination benefits	1 205 716	(1 205 716)	1 138 278	1 138 278
Provisions for costs of injuries at work	164 379	(3 594)	-	160 785
Other provisions	129 922	(11 089)	60 000	178 833
Total	**1 500 017**	**(1 220 399)**	**1 198 278**	**1 477 896**

Movement table of provisions by type of provision in 2023

(EUR)

	01.01.2023	(DECREASE) IN PROVISIONS	INCREASE IN PROVISIONS	31.12.2023
Provisions for termination benefits	144 897	(144 897)	1 205 716	1 205 716
Provisions for costs of injuries at work	143 817	-	20 562	164 379
Other provisions	129 922	-	-	129 922
Total	**418 636**	**(144 897)**	**1 226 278**	**1 500 017**

25. BORROWINGS FROM CREDIT INSTITUTIONS

(EUR)

	31.12.2024	31.12.2023
Non-current borrowings from credit institutions	67 605 306	53 988 276
Current borrowings from credit institutions	35 342 969	32 321 087
Total borrowings from credit institutions	**102 948 275**	**86 309 363**
Interest calculated	**241 566**	**339 850**

The borrowings were received from *AS Swedbank, AS SEB banka, Nordic Investment Bank, OP Corporate Bank branch in Latvia,* and *Luminor Bank AS Latvian branch*. In the reporting period, borrowings received totalled EUR 44 000 000, and borrowings repaid totalled EUR 27 361 088.

The loan agreements of LDz with banks set out the relevant financial ratios of the financial statements of SJSC Latvijas dzelzceļš or the financial statements, which must be complied with during the term of the loan agreement. As at 31 December 2023, 31 December 2024 and the beginning of 2025, none of the non-current borrowings was in default.

LDz has not pledged its assets when borrowing.

Borrowings repayable and interest rates on borrowings as at 31 December 2024:

CURRENCY OF THE BORROWING	BORROWING, EUR	INTEREST RATE
EUR	92 206 430	3M EURIBOR + 0.86% to 3.5%
	10 741 845	6M EURIBOR + 0.75% to 1.1%
Total	**102 948 275**	

Borrowings repayable and interest rates on borrowings as at 31 December 2023:

CURRENCY OF THE BORROWING	BORROWING, EUR	INTEREST RATE
EUR	69 871 854	3M EURIBOR + 0.77% to 3.5%
	16 437 509	6M EURIBOR + 0.75% to 1.1%
Total	**86 309 363**	

Table of movements in borrowing balances

(EUR)

	2024	2023
Borrowings at the beginning of the reporting period	**86 309 363**	**90 556 751**
Borrowings received in the reporting period	44 000 000	20 000 000
Borrowings repaid in the reporting period	(27 361 088)	(24 247 388)
Borrowings at the end of the reporting period	**102 948 275**	**86 309 363**

Calculated interest movement table

(EUR)

	2024	2023
Calculated interest at the beginning of the reporting period	**339 850**	**204 293**
Calculated interest in the reporting period*	4 870 921	4 055 550
Interest paid during the reporting period	(4 969 205)	(3 919 993)
Calculated interest at the end of the reporting period	**241 566**	**339 850**

** Amount of interest capitalised: in 2024 – EUR 1 006 378; in 2023 – EUR 0.*

26. DEFERRED INCOME

(EUR)

	31.12.2024	31.12.2023
Non-current portion of deferred income (EU funds and state budget resources)	260 892 192	274 799 062
Other deferred income	49 374	49 374
Total non-current portion	**260 941 566**	**274 848 436**
Current portion of deferred income (EU funds and state budget resources)	13 753 997	18 731 370
Other deferred income	35 931	136 106
Total current portion	**13 789 928**	**18 867 476**
Total deferred income	**274 731 494**	**293 715 912**

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

Movement of EU and national budget project funds in 2024

(EUR)

DEFERRED INCOME	BALANCE AT 01.01.2024	RECLASSIFIED (TRANSFERRED)	RECEIVED FUNDS	TRANSFER OF FUNDS TO THE PARTNER	REDUCTION BY DEPRECIATION AND IMPAIRMENT	BALANCE AT 31.12.2024
Non-current portion	274 799 062	(50 750 976)	39 093 511	(2 249 405)	-	260 892 192
Current portion	18 731 370	50 750 976	-	-	(55 728 349)	13 753 997
Total	**293 530 432**	**-**	**39 093 511**	**(2 249 405)***	**(55 728 349)****	**274 646 189**

EU funds received in 2024:

- EUR 6 577 231 for the project *Modernisation of railway passenger infrastructure*,
- EUR 6 291 330 for the project *Modernisation of railway infrastructure to increase the speed of trains*,
- EUR 23 697 052 for the project *Modernisation and development of railway infrastructure*,
- EUR 1 723 657 for the project *Modernisation of Riga railway junction Sarkandaugava - Mangaļi - Ziemeļblāzma*,
- EUR 804 241 for the project *Development of an interoperable railway system in the Baltic States*.

* In 2024, cash was transferred to:

- EUR 352 032 to Eesti Raudtee AS under the project *Establishment of an Interoperable Railway System in the Baltic States* in accordance with the cooperation agreement;
- EUR 1 897 373 to the Central Finance and Contracting Agency as the project *Installation of fencing and pedestrian crossings at railway infrastructure facilities* was discontinued.

** including EUR 36 577 091 impairment of tangible assets in 2024

Movement of EU and national budget project funds in 2023

(EUR)

DEFERRED INCOME	BALANCE AT 01.01.2023	RECLASSIFIED (TRANSFERRED)	RECEIVED FUNDS	TRANSFER OF FUNDS TO THE PARTNER	DECREASE BY THE AMOUNT DEPRECIATION CHARGE	BALANCE AT 31.12.2023
Non-current portion	265 378 437	(18 719 206)	28 203 600	(63 769)	-	274 799 062
Current portion	19 360 066	18 719 206	-	-	(19 347 902)	18 731 370
Total	**284 738 503**	**-**	**28 203 600**	**(63 769)**	**(19 347 902)**	**293 530 432**

27. TAXES AND NATIONAL SOCIAL INSURANCE MANDATORY CONTRIBUTIONS

(EUR)

TYPE OF TAX	TAX LIABILITIES 31.12.2024	TAX LIABILITIES 31.12.2023
Personal Income Tax	7 084 463	7 815 498
Value added tax	4 592 218	5 683 613
Statutory social security contributions	2 187 285	7 993 205
Natural resources tax	12 489	9 143
Business risk duty	1 221	1 414
Company car tax	373	-
For right to use numbering	45	45
Current income tax liabilities	-	1 167
Total*	**13 878 094**	**21 504 085**

** As at 31 December 2024, non-current liabilities EUR 3 339 558, current liabilities EUR 10 538 536 (at 31 December 2023, non-current liabilities EUR 5 081 936, current liabilities EUR 16 422 149).*

As at 31 December 2024, LDz has no overdue payments to the budget.

Under non-current liabilities, based on the decision of the State Revenue Service of 20 December 2022 *On the extension of payment deadlines*, the amounts of personal income tax and value added tax, for which the payment deadline is longer than one year, are recognised. The extension of the deadline for paying taxes for another five years has been re-granted for tax amounts that arose during the COVID-19 emergency.

28. FINANCIAL RISK MANAGEMENT

The Company's most important financial instruments are borrowings from banks, other borrowings, cash, as well as receivables and payables. The main task of these financial instruments is to ensure the financing of the Company's operating activity. The Company also has several other financial assets and liabilities, such as trade receivables and payables to suppliers and contractors, arising directly from its economic activities.

The Company is exposed to market, credit, and liquidity risks related to its financial instruments. Financial risk management is ensured by the Finance Department of LDz (until 1 December 2024 also by the Finance Committee of the Group).

The Company's financial instruments are categorised as follows:

(EUR)

	31.12.2024	31.12.2023
Financial assets at amortised cost		
Trade and other receivables, excluding advances	45 070 808	71 221 794
Cash and cash equivalents	60 123 645	25 505 026
Financial assets at fair value through profit or loss		
Long-term financial investments	73 982	73 982
Total financial assets	**105 268 435**	**96 800 802**
Financial liabilities at amortised cost		
Loans from credit institutions	102 948 275	86 309 363
Trade and other payables, including lease liabilities, excluding advances (including the non-current portion)	26 532 095	30 312 512
Total financial liabilities	**129 480 370**	**116 621 875**

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 LDz's revenue or the value of its financial instruments. Market risk includes currency risk and interest rate risk.

Interest rate risk

Interest rate risk is the risk of incurring losses due to changes in interest rates on the Company's assets and liabilities. The Company is exposed to the risk of changes in market interest rates concerning its non-current liabilities subject to a variable interest rate.

All of the Company's borrowings are at variable interest rates. For a detailed description of interest rates on borrowings, see Note 25. Interest rate risk is managed by the Company by regularly assessing the borrowing rates available on the market. If lower interest rates than the existing ones are available, the Company evaluates the financial cost-effectiveness of loan restructuring.

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

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 reported reporting period, provided that all other variables remain unchanged. The Company's equity, except for the result of the reporting year, is not affected.

	2024		2023	
	BASE RATE INCREASE/DECREASE (BASIS POINTS)	IMPACT ON PROFIT BEFORE TAX (EUR)*	BASE RATE INCREASE/DECREASE (BASE POINTS)	IMPACT ON PROFIT BEFORE TAX (EUR)
EURIBOR	(+100)	(685 629)	(+100)	(39 624)
	(-100)	685 629	(-100)	39 624

* Estimates the change in actual interest payments under the loan agreements in 2024 and takes into account capitalised interest of EUR 1 006 378.

Currency risk

Currency risk is the risk of incurring losses as a result of unfavourable exchange rate changes related to assets and liabilities in foreign currencies. The currency risk to which the Company is exposed stems mainly from its business activities – revenues and costs are denominated in different currencies. The Company's trade receivables are mostly in *euro*. A detailed breakdown of financial instruments by currency is presented in Note 31.

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

The management of LDz has decided not use derivative financial instruments to manage currency risks.

Currency sensitivity

LDz had no significant foreign exchange balances during the reporting year, so the potential impact of currency fluctuations was negligible.

Credit risk

Credit risk is the risk that a counterparty could default on its obligations to LDz, causing it significant financial losses. LDz is exposed to credit risk arising directly from its economic activities, principally trade receivables, and to credit risk related to the LDz'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 customers is assessed. LDz secures against credit risk by receiving prepayments from their customers.

LDz continuously monitors the balances of receivables to minimise the possibility of uncollectible debts. Possible impairment of trade receivables is constantly analysed.

LDz has not received any collateral as security for trade receivables.

As at 31 December 2024, LDz had three customers (2023: three customers), each of which owed LDz more than EUR 700 thousand and accounted for about 90.5% (2023: 94.4%) of the total receivables. Excluding the receivables of subsidiaries which are not yet due for payment at 31 December 2024, two customers owed more than EUR 700 thousand, accounting for 82.7% of the total receivables.

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

During 2024, there have been no significant changes in the allowances for expected credit losses for trade receivables.

Trade receivables are written off only when they are not expected to be recovered. Indications that the recovery is unlikely include, inter alia, the debtor's inability to agree on a repayment schedule accompanied by the debtor's insolvency, bankruptcy, or liquidation.

LDz is exposed to maximum credit risk, as shown in the following table:

(EUR)

	31.12.2024	31.12.2023
Cash and cash equivalents	60 123 645	25 505 026
Trade and other receivables (gross amount), excluding advances and prepayments	45 913 129	72 051 821
Total	**106 036 774**	**97 556 847**

The allowances for expected credit loss as at 31 December 2024 are determined by applying the following expected credit loss rates:

(EUR)

	Not overdue	Overdue over 30 days	Overdue over 90 days	Overdue over 120 days	Total
Expected credit loss rate	0,19%	2,00%	10,00%	88,74%	-
Loans to related companies	11 759 749	-	-	-	**11 759 749**
Trade and other receivables (gross)	33 136 298	137 036	33 907	846 139	**34 153 380**
Allowances for expected credit loss	(85 302)	(2 741)	(3 390)	(750 888)	**(842 321)**

The allowances for expected credit loss as at 31 December 2023 are determined by applying the following expected credit loss rates:

(EUR)

	Not overdue	Overdue over 30 days	Overdue over 90 days	Overdue over 120 days	Total
Expected credit loss rate	0,10%	1,50%	8,00%	76,52%	-
Loans to related companies	15 978 720	-	-	-	**15 978 720**
Trade and other receivables (gross)	54 660 218	288 303	153 981	970 599	**56 073 101**
Allowances for expected credit loss	(70 639)	(4 325)	(12 318)	(742 745)	**(830 027)**

Cash balances

The credit risk arising from the LDz's cash deposits with banks is managed by the LDz's Finance Committee in accordance with the Group's Financial Management Policy. Under the policy, it is permissible to invest the Company's free resources only in deposits or money market funds. Before placing funds in banks (deposits or current accounts), the Finance Department of the Company evaluates banks' credit ratings and offered interest rates.

The Company's cash balances in banks according to bank credit ratings granted by Moody's agency:

(EUR)

CREDIT RATING	31.12.2024	31.12.2023
Aa3	60 673	14 408
A3	59 876 691	25 480 241
No rating	185 212	7 591
Total	**60 122 576**	**25 502 240**

Liquidity risk

Liquidity risk is the risk that LDz will not be able to pay its financial liabilities when they fall due.

The LDz's Directorate of Finances manages liquidity risk by maintaining adequate cash reserves and ensuring sufficient funding through the granted loans, credit lines, financial leases, etc., as well as by constantly monitoring the projected and actual cash flows and harmonising the term structure of financial assets and liabilities.

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

On 31 December 2024, the current assets of LDz exceed its current liabilities by EUR 18 488 thousand. The total liquidity ratio is 1.2. Current liabilities include deferred income of EUR 13 754 thousand related to the EU project and state budget fund investments in railway public infrastructure. Excluding deferred income related to investments in public railway infrastructure by EU projects and state budget funds, the liquidity ratio is 1.5. LDz has been granted a short-term cash flow financing credit line of EUR 5 000 thousand from November 2024 at the Latvian branch of Luminor Bank AS in case of delays in the state budget payments to ensure financial stability. However, due to a significant increase in the cash balance as at 31 December 2024, this credit line has not been used as at the end of the reporting year.

Based on the above, we believe that LDz is financially sound and able to cover its current payments.

The concluded loan agreements with banks provide for financial ratios that LDz must comply with during the term of the agreement. As at 31 December 2023, 31 December 2024 and the beginning of 2025, none of the non-current borrowings was in default.

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

(EUR)

31 DECEMBER 2024	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Loans from credit institutions	7 491 308	31 863 712	70 295 321	2 923 717	112 574 058
Other liabilities (including other borrowings, trade and other payables)	11 813 173	11 397 341	2 222 060	1 042 436	26 475 010
Total	**19 304 481**	**43 261 053**	**72 517 381**	**3 966 153**	**139 049 068**

(EUR)

31 DECEMBER 2023	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Loans from credit institutions	8 564 160	28 064 803	56 345 343	2 055 189	95 029 495
Other liabilities (including other borrowings, trade and other payables)	16 701 105	10 544 946	1 676 884	1 157 213	30 080 148
Total	**25 265 265**	**38 609 749**	**58 022 227**	**3 212 402**	**125 109 643**

Proceedings are pending between LDz (defendant) and LEONHARD WEISS OÜ (claimant) for the early termination of the LDz contract of 14.11.2023 to be declared unjustified and null and void from the date of its issue. The hearing is scheduled for 30 April 2025.

29. FAIR VALUE CONSIDERATIONS

IFRS 13 establishes a hierarchy of valuation techniques based on whether observable market data is used in the valuation technique or whether market data is not observable. Observable market data are obtained from independent sources. If the market data are not observable, the valuation technique reflects the Company's assumptions about the market situation.

This hierarchy requires the use of observable market data where available. When carrying out revaluation, the Company takes into account appropriate observable market prices, if possible.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Various methods are used to determine the fair value of a financial instrument: quoted prices or valuation techniques that incorporate observable market inputs and are based on internal models. Based on the fair value hierarchy, all valuation techniques are categorised into Level 1, Level 2, and Level 3.

The level of the fair value hierarchy of a financial instrument should be set at the lowest level if the material part of its 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 based on the lowest level if the material part of its value is made up of lower-level data.

Quoted market prices — Level 1

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

Valuation technique using market data – Level 2

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

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

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

In the valuation technique, when using market data that is not based on observable market data (non-observable market data) is classified at Level 3. Unobservable market data is considered to be data that is not readily available in an active market, due to an illiquid market or complexity of the financial instrument. Level 3 data are generally determined based on observable market data of a similar nature, historical observations or using analytical approaches.

All of LDz's financial instruments, except cash and cash equivalents, comply with the Level 3 valuation technique.

Assets and liabilities for which fair value is disclosed

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

The fair value of loans from credit institutions, financial lease liabilities, and other non-current liabilities is measured by discounting future cash flows at market interest rates. Since the interest rates applied to loans from credit institutions, finance lease liabilities, and other non-current liabilities are generally variable and do not differ significantly from market interest rates, and the risk premium applicable to the Company has not changed significantly, the fair value of long-term liabilities approximates their carrying amount.

30. CAPITAL MANAGEMENT

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

LDz's objectives with regard to capital management are to ensure that LDz is able to continue its activities and deliver the return on capital determined by the shareholders' meeting. The State of Latvia, as the sole owner of the Company's share capital, has the right to make decisions related to the increase, decrease, payment of dividends or allocation of the Company's capital for development.

In the context of capital management, the Company assesses the leverage ratio. The Company's financial risk management policy does not set a minimum or maximum level for this indicator. The loan agreements with banks set out the financial ratios that LDz must meet during the term of the agreement; if the ratios are not met, letters are received from the banks when the annual report is prepared stating that the lender will not require the funds to be repaid over a shorter period. The Company considers the financial conditions set by the banks concerning the leverage ratio when drawing up short- and long-term financial plans and budgets.

(EUR)

	31.12.2024	31.12.2023
Borrowings from credit institutions and other borrowings	102 948 275	86 309 363
Accounts payable (including taxes)	40 512 073	51 874 560
Other liabilities	276 209 390	295 215 929
Total liabilities	**419 669 738**	**433 399 852**
Shareholder's equity	318 387 731	351 235 052
Total equity and liabilities	**738 057 469**	**784 634 904**
Debt to total capital ratio	57%	55%
Equity to debt ratio	76%	81%

31. FINANCIAL ASSETS AND LIABILITIES BY CURRENCY

The Company's financial instruments by currency as at are presented in the table below:

31 DECEMBER 2024	EUR	USD EUR	CHF UN OTHER CURRENCIES EUR	TOTAL EUR
Trade and other receivables, excluding advances	44 507 174	-	563 634	45 070 808
Cash and cash equivalents	59 777 374	6 658	339 613	60 123 645
Total financial assets	**104 284 548**	**6 658**	**903 247**	**105 194 453**
Loans from credit institutions	102 948 275	-	-	102 948 275
Trade and other payables, excluding advances	25 828 829	-	703 266	26 532 095
Total financial liabilities	**128 777 104**	**-**	**703 266**	**129 480 370**

31 DECEMBER 2023	EUR	USD EUR	CHF UN OTHER CURRENCIES EUR	TOTAL EUR
Trade and other receivables, excluding advances	71 186 056	-	35 738	71 221 794
Cash and cash equivalents	24 467 739	5 264	1 032 023	25 505 026
Total financial assets	**95 653 795**	**5 264**	**1 067 761**	**96 726 820**
Loans from credit institutions	86 309 363	-	-	86 309 363
Trade and other payables, excluding advances	29 122 852	-	1189 660	30 312 512
Total financial liabilities	**115 432 215**	**-**	**1 189 660**	**116 621 875**

32. CAPITAL EXPENDITURE COMMITMENTS

LDz also plans to make capital expenditure in property, plant and equipment and intangible assets in the next reporting year, the most significant of which are contracts concluded but not yet finalised:

NAME OF COUNTERPARTY, SUBJECT OF THE CONTRACT	DATE OF CONTRACT	MATURITY OF THE CONTRACT	CONTRACT AMOUNT, EUR
General partnership Berlam-Belss: Introduction of a digital radio system	14.08.2020	Maturity date	7 074 943
General partnership BMGS – FIMA: Construction of elevated platforms on the railway line Riga - Jelgava	29.07.2021	Maturity date	6 916 649
General partnership BMGS – FIMA: Construction of elevated platforms on the railway line Riga– Krustpils	29.07.2021	Maturity date	10 752 404
General partnership BMGS – FIMA: Construction of elevated platforms on the railway line Riga - Tukums II	29.07.2021	Maturity date	6 162 830
OU Leonhards Weiss: Construction of elevated platforms on the railway line Zemitani - Skulte (Zemitāni- Vecāķi- Alfa)	30.07.2021	Maturity date	8 084 428
General partnership BMGS – FIMA: Construction of elevated platforms on the railway line Zemitani - Skulte	29.07.2021	Maturity date	8 228 290
General partnership FIMA GROUP: Implementation of unified information and video surveillance systems	12.05.2022.	Maturity date	5 512 291
PA BMGS-FiMA-ASTOM: Modernisation of railway infrastructure to increase the speed of train movement: construction	15.09.2022	Maturity date	57 938 490
PS NORDES BŪVE&BCC: Modernisation and development of the electrified railway network: construction	28.02.2024	30 01.2028	59 072 301

In the reporting year, there were no significant approved transactions for which no contracts have been concluded.

Cost of construction in progress

(EUR)

NAME OF OBJECT OF CONSTRUCTION IN PROGRESS	COST OF CONSTRUCTION IN PROGRESS AS AT 31.12.2024	PLANNED COST 2025	PLANNED DATE OF PUTTING INTO OPERATION
Modernisation of railway infrastructure to increase the speed of train movement	31 334 353	15 940 344	2025
Modernisation of Railway Passenger Infrastructure (platforms)	26 593 170	17 595 747	2025
Introduction of digital radio	3 807 249	309 449	2025
(CINEA) replacement of APOVS and creation of OPVS	2 771 625	-	2025
Modernization of the Dobele station centralization system	637 750	3 119 256	2025
Overhaul of civil engineering structures, track machinery and equipment	405 567	1 280 294	2025
Restoration of contact networks and energy	396 557	2 581 400	2025
Modernisation and development of the electrified railway network	322 975	58 383 026	2027
Overhaul of railway stations, process buildings and external engineering networks, replacement of heating systems	278 082	860 411	2025
Other projects	230 435	565 000	2025– 2027
Total	**66 777 763**	**100 634 927**	**x**

Construction in progress includes materials purchased for investment projects amounting to EUR 1 069 752.

33. RESEARCH AND DEVELOPMENT ACTIVITIES

(EUR)

COSTS	2024	2023
Internal expenditure on research and development work carried out by LDz	-	4 851 320
External expenditure on research and development work commissioned in other institutions, enterprises, organizations	-	148 517
Total	**-**	**4 999 837**

In 2024, the Company did not incur any costs related to research and development activities.

34. CONTINGENT TAX LIABILITIES

The tax authorities can at any time conduct an audit of accounting records within three years after the tax year and additionally calculate tax liabilities and penalties. The LDz's Management is not aware of any circumstances that may give rise to possible material liabilities in the future.

35. FUTURE LEASE INCOME

Operating lease income in 2024 is EUR 3 016 484. During the period of next 1 to 5 years, operating lease income is expected to be received in the same amount as in 2024.

36. NUMBER OF EMPLOYEES

In 2024 the Company employed on average 3 676 employees (in 2023: 3 945).

37. RELATED PARTY TRANSACTIONS

The Company applies the exemption under IAS 24 and presents only material transactions with state-related parties. The Company has transactions with the Ministry of Transport (100% shareholder of LDz) and other companies whose shares are owned by the state. The largest transactions are with AS Pasažieru vilciens (payment for the minimum access service package, electricity distribution and sales, premises rental, purchase of subscriber tickets) for EUR 22 018 thousand (EUR 24 454 thousand in 2023) and AS Latvenergo (purchase of natural gas) for EUR 364 thousand (EUR 39 354 thousand in 2023 for purchase of electricity, natural gas). Mutual transactions are related to the operating activity of the respective parties.

(EUR)

RELATED PARTY	31.12.2024	31.12.2023
Payables to AS Pasažieru vilciens	1 532 165	1 391 972
Payables to AS Latvenergo	42 271	2 611 764

Transactions with subsidiaries:

(EUR)

COUNTERPARTY	2024		2023	
	GOODS/SERVICES		GOODS/SERVICES	
	SOLD/PROVIDED	PURCHASED/RECEIVED	SOLD/PROVIDED	PURCHASED/RECEIVED
SIA LDZ CARGO	38 413713	5 013 266	57 921 656	5 403 220
SIA LDZ ritošā sastāva serviss	2 431 137	5 625 075	2 745 105	5 384 340
SIA LDZ apsardze	348 014	5 469 014	372 266	4 903 518
AS LatRailNet	70 764	2 436	81 298	4 745
SIA LDZ Loģistika	228 417	-	289 259	-
Total	**41 492 045**	**16 109 791**	**61 409 584**	**15 695 823**

Due from related companies:

(EUR)

SUBSIDIARY	31.12.2024	31.12.2023
Current receivables		
SIA LDZ CARGO	2 621 647	3 960 489
SIA LDZ ritošā sastāva serviss	264 035	359 071
SIA LDZ apsardze	32 618	34 464
SIA LDZ Loģistika	20 523	35 796
AS LatRailNet	6 965	6 543
Total	**2 945 788**	**4 396 363**
of which incurred in the December of the reporting year	*2 945 788*	*4 396 363*
Current loans		
SIA LDZ ritošā sastāva serviss	3 838 272	4 207 731
Non-current loans		
SIA LDZ ritošā sastāva serviss	7 921 477	11 740 401

Due to related companies:

(EUR)

SUBSIDIARY	31.12.2024	31.12.2023
SIA LDZ CARGO	917 070	1 195 491
SIA LDZ apsardze	662 874	469 959
SIA LDZ ritošā sastāva serviss	616 300	1 477 825
AS LatRailNet	-	1 080
Total	**2 196 244**	**3 144 355**
of which incurred in the December of the reporting year	*1 592 216*	*2 242 623*

38. GOING CONCERN

The operating result for 2024 is a loss of EUR 38 847 thousand, significantly affected by a EUR 31 213 thousand impairment of net assets for property, plant and equipment. Impairment was recognised for the infrastructure used exclusively for freight transportation, especially on those sections of railway track where there was a significant drop in traffic.

External factors related to the geopolitical situation, the war in Ukraine, and the imposed international economic sanctions against Russia and Belarus indicate that the situation related to the volumes of freight transportation will not improve significantly in the future.

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

In addition, in 2025, the volume of freight traffic and, consequently, the use of the public railway infrastructure managed by LDz may be adversely affected by the continued uncertainty regarding the coordination or non-coordination of freight traffic by Russian Railways, the Russian ban on the export of Russian grain, as well as the Russian Railways ban on the loading of empty wagons registered in other countries.

Given the Company's cooperation with Russian and Belarusian partners in previous years, as well as the nature of its operations, the war in Ukraine has undoubtedly had and will continue to have an impact on the Company's operations in 2025 and beyond. The restrictions in place to date have led to a reduction in cargo volumes and it is difficult to predict the possible impact of additional sanctions on the Company's operations in the future. In view of the risks associated with sanctions, the following measures have been taken:

1. LDz has established a separate Sanctions Department and Sanctions Committee responsible for sanctions reviews, strengthening the exchange of information on sanctions reviews within the Group.
2. The Group has developed and implemented the Sanctions Policy of Latvijas Dzelzceļš Group, ensuring a uniform approach to sanctions checks throughout the Group.
3. In assessing the risks related to significantly expanded lists of sectoral sanctions, LDz strengthened freight inspection procedures by increasing the assessment of freight types and their compliance with the established sectoral sanctions.
4. All persons included in the sanctions lists are reflected in the Sanctions Information System (IS) maintained by LDz, which ensures daily automatic verification of all clients and cooperation partners for coincidence with the lists of sanctioned persons. The lists of IS Sanctions are updated daily automatically from the official sites that maintain news about the sanctions of the Republic of Latvia, the European Union, the UN, and OFAC.
5. In 2025, work continued to upgrade IS Sanctions system, as well as on strengthening the LDz's sanctions monitoring function through several technical improvements.

The Company's Management is aware of the uncertainty associated with the further development of the situation and continues to monitor the development of events daily, as well as their possible impact on the LDz's activities.

The Group has begun implementing its new business model while continuing to execute the crisis plan and review organizational and technological processes. These efforts have already led to cost reductions and are expected to deliver further savings moving forward.

In order to reduce LDz's costs and ensure compliance with the 2025 revenue and operating volume forecasts, as well as to improve process efficiency, LDz's management has decided on significant changes to LDz's organisational structure:

- - Optimisation of the organisational structure by terminating the activities of several units as of 1 April 2025, the functions of which will be taken over by other units, resulting in a reduction of administrative costs;
- - Centralisation of functions by merging material support, mechanisation, and management processes to avoid duplication of functions and save resources.

In parallel with cost-cutting measures, the Company is working to increase revenues – both from the rental of facilities and from the provision of services outside the Group.

As mentioned earlier, as at 31 December 2024 the current assets of LDz exceed its current liabilities by EUR 18 488 thousand. The total liquidity ratio is 1.2. Current liabilities include deferred income of EUR 13 754 thousand related to the EU project and state budget fund investments in railway public infrastructure. Excluding deferred income related to investments in public railway infrastructure by EU projects and state budget funds, the liquidity ratio is 1.5. LDz has been granted a short-term cash flow financing credit line of EUR 5 000 thousand from November 2024 at the Latvian branch of Luminor Bank AS in case of delays in the state budget payments to ensure financial stability. However, due to a significant increase in the cash balance as at 31 December 2024, this credit line has not been used as at the end of the reporting year.

As a result of the economic activity, the funds required to ensure the financial stability of the national public railway infrastructure operator, as laid down in national legislation, amounting to EUR 26 013 thousand have been recognised in 2024. The financial stability has been recognised following the guidelines of the IFRS Accounting Standards and in the amount provided for in Section 73 of the law *On the State Budget for 2025 and Budget Framework for 2025, 2026, and 2027*. The request for financial stability will be made after approval of the annual report of LDz in accordance with the procedure set out in Section 9(4) of the *Railway Law*. In 2024, the funding required to ensure financial stability was recognised as revenue in accordance with the recognition principles laid down in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. These principles require the recognition of a government grant at the point in time when there is reasonable assurance that the conditions attached to the receipt of the grant have been fulfilled. In addition, grants relating to the recovery of costs should be recognised in the period in which the costs are incurred, provided there is reasonable assurance that the grant will be repaid in the future.

The criteria for LDz to receive the financial stability payment are the non-fulfilment of the financial stability conditions provided for in Section 9(4) of the *Railway Law*. Given that in 2024 LDz did not meet the conditions for financial stability set out in Section 9(4) of the *Railway Law*, the criteria for receiving financial stability payments set out in Section 9(4) of the *Railway Law* were therefore met. The fact that the financial stability payment from previous years has been received confirms the validity of the revenue recognition for 2024.

In order to show the total recognised financial stability payment in the financial statements, an additional column *2024 result before financial stability payments* and a column *2023 result before financial stability payments* are presented in the Statement of Comprehensive Income of LDz. This disclosure is not required by the IFRS, but is provided as an additional indicator for the purpose of disclosure in the financial statements of the profit or loss of LDz in order to receive public funding for the financial stability of SJSC Latvijas dzelzceļš in accordance with Section 9(4) of the Railway Law to compensate for the loss.

The Company works with the Ministry of Transport to prepare a new contract to ensure financial stability of Latvijas dzelzceļš SJSC, as the multi-annual agreement concluded in 2018 expired on 31 December 2022.

Although there is confidence in the receipt of financial resources, there is uncertainty regarding the timing of receipt of additional financial resources required by LDz. This uncertainty applies both to the funds to compensate for the costs of maintaining and renewing the railway infrastructure in full for the provision of public transport services throughout 2025 and to the funds for ensuring the financial stability of LDz.

Despite this uncertainty, LDz Management believes that the going concern principle is applicable to the preparation of the financial statements, based on the approval of the strategy and action plan of *Latvijas dzelzceļš*, the implementation of the new business model of the Group, and the review of organizational and technological processes, which should result in future cost reduction. The main task of LDz is to ensure the management of the State public-use railway infrastructure and safe, high-quality, and efficient railway and logistics services in the interests of the State, the public, and the Latvian economy, therefore we believe that the fulfilment of the conditions laid down in Section 9 (4) of the Railway Law will not be delayed. Consequently, the financial statements have been prepared on a going concern basis and do not include any adjustments, including revaluations of assets and liabilities, that would be necessary if the going concern basis had not been applied.

39. SUBSEQUENT EVENTS

There have been no events since the end of the reporting year, that have had a material impact on the information presented in the financial statements for 2024.

Riga, see the timestamp for the date.

Chairman of the Board	A.Grinbergs
Member of the Board	R.Pļavnieks
Member of the Board	M.Ķeņģis

The annual report was prepared by the Finance Department of SJSC Latvijas dzelzceļš:
Chief Financial Officer T.Labzova-Ceicāne

The original document prepared in Latvian has been signed electronically with a secure electronic signature and contains a timestamp.

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Independent Auditors' Report

To the shareholder of Latvijas dzelzceļš VAS

Report on the Audit of the Financial Statements

OUR OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Latvijas dzelzceļš VAS ("the Company") set out on pages 15 to 60 of the accompanying Annual Report, which comprise:

— the statement of comprehensive income for the year ended 31 December 2024,

— the statement of financial position as at 31 December 2024,

— the statement of changes in equity for the year then ended,

— the statement of cash flows for the year then ended, and

— the notes to the financial statements, which include a summary of material accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Latvijas dzelzceļš VAS as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the European Union.

BASIS FOR OPINION

In accordance with the 'Law on Audit Services' of the Republic of Latvia 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 Auditors' Responsibility for the Audit of the Financial Statements section of our report.

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

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

OTHER MATTER

The corresponding figures included in the accompanying financial statements are based on the Company's financial statements as at and for the year ended 31 December 2023, which were audited by other auditors, whose auditors' report dated 27 March 2024 expressed an unqualified opinion.

REPORTING ON OTHER INFORMATION

The Company's management is responsible for the other information. The other information comprises:

— the Management Report, as set out on pages from 3 to 14 of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information 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.

If, based on the work we have performed and in light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

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

— the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

— the Management Report has been prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

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 IFRS Accounting 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.

AUDITORS' RESPONSIBILITY 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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 a 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.

KPMG Baltics SIA
Licence No. 55

Armine Movsisjana

Armine Movsisjana
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 178
Riga, Latvia

17 April 2025

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails