



SUSTAINABILITY AND ANNUAL REPORT 2023

24

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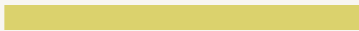
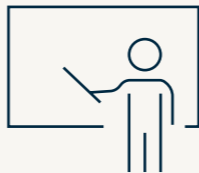
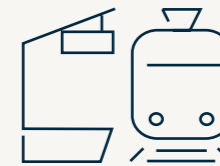
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GRI content index

VAS "Latvijas dzelzceļš" Sustainability Report for the period from 1 January 2023 to 31 December 2023 has been prepared in accordance with the GRI 1 Foundation 2021 GRI reporting standards

GRI indicator	Report section	GRI indicator	Report section
Organisational profile			
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2-3 Reporting period, frequency and contact point	About the report	2-19 Remuneration policies	The Council
2-4 Restatements of information	About the report	2-20 Process to determine remuneration	Personnel management and remuneration policy
2-5 External assurance	About the report	2-21 Annual total compensation ratio	Personnel management and remuneration policy
Activities and workers		2-22 Statement on sustainable development strategy	Preface
2-6 Activities, value chain and other business relationships	About LDz	2-23 Policy commitments	Key policies for the implementation of best corporate governance
2-7 Employees	Employees and workers	2-24 Embedding policy commitments	Key policies for the implementation of best corporate governance
2-8 Workers who are not employees VAS "Latvijas dzelzceļš" does not rely on workers who are not employees of the company and whose work is controlled by LDz	Employees and workers	2-25 Processes to remediate negative impacts	Key policies for the implementation of best corporate governance
Governance		2-26 Mechanisms for seeking advice and raising concerns	Key policies for the implementation of best corporate governance
2-9 Governance structure and composition	Governance model	2-27 Compliance with laws and regulations	Compliance with laws and regulations
2-10 Nomination and selection of the highest governance body	The Council	2-28 Membership in associations	Material sustainability topics and engagement of stakeholders
2-11 Chair of the highest governance body	The Council	Engagement of stakeholders	
2-12 Role of the highest governance body in overseeing the management of impacts	The Council	2-29 Approach to stakeholder engagement	Material sustainability topics and engagement of stakeholders
2-13 Delegation of responsibility for managing impacts	The Council	2-30 Collective bargaining agreements	Collective bargaining agreements
2-14 Role of the highest governance body in sustainability reporting	The Council	Material sustainability topics	
2-15 Conflicts of interest	Management Board	3-1 Process to determine material topics	Material sustainability topics
2-16 Communication of critical concerns	The Council	3-2 List of material topics	Material sustainability topics

Information on the specific standards

Topic	GRI Topic Standard	GRI indicator or LDz specific indicator	Report section
Environmental impact	Resource efficiency, reduction of consumption and pollution	GRI 3: Material topics 2021 3-3 Management of material topics	Resource efficiency, reduction of consumption and pollution
		GRI 301: Materials 2016 301-1 Materials used by weight and volume	Materials
		GRI 303: Water and effluents 2018 303-5 Water consumption 306-3 Waste generated	Use of water resources Waste
	Energy-efficient and reduced energy consumption Promoting sustainable mobility	GRI 3: Material topics 2021 3-3 Management of material topics	Energy-efficient and reduced energy consumption
		GRI 302: Energy 2016 302-1 Energy consumption within the organisation	Energy-efficient and reduced energy consumption
		LDZ-1 Number of passengers; average speed of passenger trains; improvements of railway infrastructure; engagement of society	Promoting sustainable mobility
Social impact	Employees' well-being and social protection	GRI 3: Material topics 2021 3-3 Management of material topics	Employees' well-being and social protection
		GRI 401: Employment 2016 401-1 New employee hires and employee turnover	Employee turnover
		GRI 401: Employment 2016 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Social protection
	GRI 401: Employment 2016 401-3 Parental leave	Social protection	
	GRI 403: Occupational health and safety 2018 403-1 Occupational safety and health management system	Occupational safety and health	
	GRI 403: Occupational health and safety 2018 403-2 Hazard identification, risk assessment, and incident investigation	Occupational safety and health	
	GRI 403: Occupational health and safety 2018 403-3 Occupational health services	Occupational safety and health	
	GRI 403: Occupational health and safety 2018 403-4 Employee participation and communication on occupational health and safety	Occupational safety and health	
	GRI 403: Occupational health and safety 2018 403-5 Training on occupational health and safety	Occupational safety and health	
	GRI 403: Occupational health and safety 2018 403-6 Promotion of employee health	Occupational safety and health	

Information on the specific standards

Topic	GRI Topic Standard	GRI indicator or LDz specific indicator	Report section	
Social impact	GRI 403: Occupational health and safety 2018	403-7 Prevention and mitigation of occupational health and safety impacts	Occupational safety and health	
	GRI 403: Occupational health and safety 2018	403-8 Workers covered by an occupational health and safety management system	Occupational safety and health	
	GRI 403: Occupational health and safety 2018	403-9 Work-related injuries	Work-related injuries	
	GRI 403: Occupational health and safety 2018	403-10 Work-related ill health	Work-related injuries	
		GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	Incidents of discrimination
	Employee growth	GRI 3: Material topics 2021	3-3 Management of material topics	Employee growth
		GRI 404: Training and education 2016	404-1 Average hours of training per year per employee (Average hours of training per year per employee by gender and employee category are not collected)	Activity of the LDZ Training Centre
		GRI 404: Training and education 2016	404-2 Programmes for upgrading employee skills and transition assistance programmes	Activity of the LDZ Training Centre
	Road safety	GRI 3: Material topics 2021	3-3 Management of material topics	Road safety
		GRI 416: Customer health and safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	Improving railway safety
		GRI 416: Customer health and safety 2016	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	Improving railway safety
	Accessibility and improvement of passenger infrastructure	GRI 3: Material topics 2021	3-3 Management of material topics	Services for passengers with disabilities
		GRI 413: Local communities 2016	413-2 Operations with significant actual and potential negative impacts on local communities	Services for passengers with disabilities
	Educating the public	GRI 3: Material topics 2021	3-3 Management of material topics	Educating the public
	GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments, and development programmes	Educating the public	

Information on the specific standards

Topic	GRI Topic Standard	GRI indicator or LDz specific indicator	Report section	
Economic impact	Encouraging the growth of young professionals in the sector	LDz-2 Promoting the growth of young professionals in the industry Cooperation with educational institutions; providing internships; engagement in research and development projects; events to attract new specialists	Encouraging the growth of young professionals in the sector	
	Preservation/ accessibility of historical heritage	LDz-3 Preservation/accessibility of historical heritage Activities of the Latvian Railway History Museum and other events	Preservation of historical heritage	
	Effective management, modernisation and development of infrastructure	GRI 3: Material topics 2021	3-3 Management of material topics	Effective management, modernisation and development of infrastructure
		GRI 203: Indirect economic impact 2016	203-1 Investments into infrastructure and service development	Investments into infrastructure and service development
	Selection of business partners and suppliers	GRI 201: Economic performance 2016	201-4 Financial assistance received from the state	Attracting financing and investments for operational development
		GRI 3: Material topics 2021	3-3 Disclosures of management approach	Selection of business partners and suppliers
	Direct economic impact	GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	Selection of business partners and suppliers
		GRI 3: Material topics 2021	3-3 Management of material topics	Direct economic impact
	Development of new technologies and digitalisation of activities	GRI 201: Economic performance 2016	201-1 Direct economic value generated and distributed	Direct economic impact
			LDz-4 Development of new technologies and digitisation of activities Major IT system and digital solutions; performed improvements or development of new systems, etc.	Development of new technologies and digitalisation of activities

01

FOREWORD

The Sustainability Report, prepared in accordance with the internationally recognised Global Reporting Initiative (hereinafter “GRI”) guidelines, makes it possible to identify and analyse the company’s impact on various aspects of sustainability over a longer period. This report presents and analyses the impact of the operating activity of VAS “Latvijas dzelzceļš” on the economy, environment, and society. The report gives an overview of the most important operational and financial indicators of VAS “Latvijas dzelzceļš”, the implementation of the most significant projects, the day-to-day operations as well as the public and international activities.



Rinalds Pļavnieks

VAS "Latvijas dzelzceļš"
Chairman of the
Management Board

2023 was a dynamic year for the railway industry and brought serious challenges in Latvia and internationally: the restrictions resulting from the imposed international sanctions continued to expand and geopolitical developments intensified their impact on the sector. With the decline in freight volumes, the basis for the historical positioning of LDz was somewhat lost a number of years ago. Therefore, the current focus of LDz activities is primarily on developing a modern infrastructure for passenger infrastructure, while at the same time offering freight transport for farmers and other local manufacturers, freight transport from ports and industrial parks to cities to consumers or for further processing. Today in particular, we are aware that railway is also an indispensable pillar of national security and defence, which is why we are increasingly focusing on strengthening military mobility. The new circumstances, directions of activity, and focus shifts have also affected LDz's revenue structure, so finding a new, optimal model for financing railway infrastructure remains one of our top priorities and that of our partners as well.

Over the past year, in addition to addressing these critical issues, LDz has also taken important steps to strengthen its capacity in the area of sustainable development. A priority for our long-term development is a change in internal culture, i.e., improving the working environment, motivating employees and strengthening cooperation at all levels of the organization. Active preparations have been underway since last year to start implementing the internal culture change at the beginning of 2024. As part of this programme, various measures, approaches and actions are planned to implement the commitment to make LDz's operations more efficient, flexible and innovative and to keep an eye on the development and well-being of each employee. We recognise that loyal, growth-oriented and happy employees are our most valuable asset and that by strengthening our team, we can become more resilient to any shocks and achieve our goals faster and more successfully.

By strengthening the governance of the sustainability areas and taking into account the requirements of the Sustainability Reporting Directive at an early stage, in 2023 we established a Sustainability Committee in which a number of stakeholders and functions represent the key areas. As part of its remit, the Committee defines the critical material sustainability topics for the LDz Group, defines goals in these areas, and is responsible for managing other sustainability governance processes.

Starting from 2025, LDz and several of its Group companies will be bound by the Corporate Sustainability Reporting Directive and the associated European Sustainability Reporting Standards (ESRS). In 2023, we therefore began preparing for the implementation of the Directive by reviewing those LDz's sustainability areas, which were defined in accordance with the standards of the Global Reporting Initiative (GRI). A sustainability policy for the LDz Group is currently being developed and additional consultations with external stakeholders relevant to each area will be conducted in 2024.

With the implementation of the new sustainability reporting requirements and recognising that both public and private funding are critical to the development of LDz's infrastructure and related services, we began to evaluate our operations in 2023 following the requirements of the EU Taxonomy Regulation. In 2023, LDz developed guidelines that summarise the most common business activities in the railway sector included in the Taxonomy and set out the approach how to assess the compliance of certain investments or assets with these requirements. The LDz Group's previous investment planning and execution control arrangements have been amended, including a requirement of an assessment of each development or renovation project during the annual investment planning process in accordance with the requirements of the Taxonomy. As part of conducting such an assessment, LDz has already prepared its medium-term investment plan for 2024.

Last year was not an easy year and LDz had to overcome challenges from various directions. We had to adjust to the decline in revenue and international sanctions while at the same time implementing several ambitious infrastructure projects. Nevertheless, we managed to maintain the railway infrastructure at a consistently high level and ensure the efficient transport of passengers and goods. We have made targeted efforts to develop new passenger routes and bring freight volumes to the Baltic markets. In addition, we continue to explore various opportunities to expand our business outside the Latvian market, e.g. by opening a branch in Estonia for our subsidiary, and we are pursuing further expansion opportunities in Central Europe. Even if change and adaptation to new circumstances do not always happen as quickly as I would like, I am sure that LDz is currently confidently taking the first steps into a new phase of its operations.

02

ABOUT THE REPORT

2-1; 2-2; 2-3; 2-4; 2-5





Reporting period::	1 January – 31 December 2023.
Date of publication of the report:	April 2024, in Latvian. The report is publicly available in Latvian and English on http://parskati.ldz.lv/ . The report in English has been submitted for publication in the international GRI database http://database.globalreporting.org/ .
Frequency of reporting:	The Sustainability Report has been prepared once a year since 2016 and the previous report for 2022 was published in June 2023. The report for 2023 has been prepared in accordance with the GRI (Global Reporting Initiative) reporting standards for 2021.
Contacts:	Email address for queries or comments about the sustainability report of VAS "Latvijas dzelzceļš": Agnese.Licite@ldz.lv .
Restatement of information provided in previous years	There are no significant changes.

VAS "Latvijas dzelzceļš" ("LDz") is a state-owned company, 100% of the capital shares of which are owned by the state, and their holder is the Ministry of Transport.

VAS "Latvijas dzelzceļš" manages the public railway infrastructure and is the dominant company of the Latvijas Dzelzceļš Group ("Group"). LDz manages the railway infrastructure and provides a minimum set of services for access to the publicly used railway infrastructure and access to the publicly used railway infrastructure, which links the railway infrastructure with service facilities, freight waggon handling, waggon maintenance and inspection, electricity distribution and trading, leasing services, information technology services, and electronic communication services.

The registered office of the Company is located in Riga, at Emīlijas Benjamiņas iela 3 (until February 2024 - Gogoļa iela 3; the street name has been changed under the decision of the Riga City Council,) however, its structural units and subsidiaries operate throughout Latvia - at locations where there are significant railway junctions and freight transit flows are handled and passenger transportation is organised.

In the VAS "Latvijas dzelzceļš" Sustainability Report for 2023, the information about the Company is presented to the same extent as in the VAS "Latvijas dzelzceļš" Annual Report on its financial indicators.

This report contains information about VAS "Latvijas dzelzceļš", which is the dominant company in the "Latvijas dzelzceļš" Group. The Group consists of the dominant company VAS "Latvijas

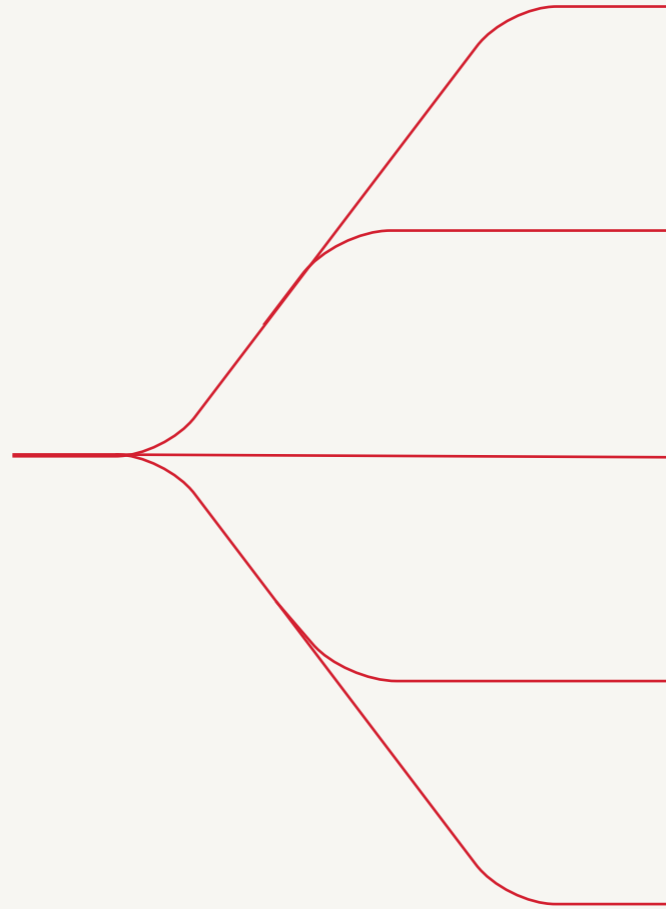
dzelzceļš" and five dependent companies, of which the dominant company has a direct decisive influence in four companies (SIA "LDZ CARGO", SIA "LDZ Logistika", SIA "LDZ ritošā sastāva serviss" and SIA "LDZ apsardze"). The Group also includes an independent joint stock company AS "LatRailNet", which, under the European Union regulation, performs the main functions of the railway infrastructure manager and is responsible for setting infrastructure use charges (fees) and allocating capacity for rail transport. The dominant company VAS "Latvijas dzelzceļš" has an indirect decisive influence in the dependent company AS "LatRailNet".

The content of this report only reflects the activities of VAS "Latvijas dzelzceļš" in the area of sustainability and does not describe the activities of the dependent companies in this regard.

The review of the Sustainability Report of VAS "Latvijas dzelzceļš" was conducted by the auditing company "PricewaterhouseCoopers" in accordance with the International Standard on Assurance Engagements 3000 other than a review of historical financial information (ISAE 3000), issued by the International Auditing and Assurance Board. The auditor has been selected on the basis that PricewaterhouseCoopers is also the auditor of the VAS "Latvijas dzelzceļš" annual report for 2023. The decision to appoint SIA "PricewaterhouseCoopers" as the auditor of the sustainability reports for 2021-2023 was passed at the Shareholders' Meeting of VAS "Latvijas dzelzceļš" held on 29 July 2021.

The auditor's report can be found on page [98](#) of this report.

Group structure as at 31 December 2023



03

ABOUT LDZ

The main function of VAS "Latvijas dzelzceļš" is the maintenance, renewal and development of the public-use railway infrastructure for passenger and freight transport, which is ensured under the laws and regulations and quality criteria of the Republic of Latvia and the European Union and under the Medium-Term Operational Strategy for 2021-2025 of VAS "Latvijas dzelzceļš".




Mission

We manage and continuously develop railway infrastructure in a safe, efficient, and sustainable way. We provide competitive railway and logistics services in the interests of the Latvian economy and the society.



Vision

We will be an efficient and competitive company that offers customers high added value and responds flexibly to changes in the transport industry.



The overall strategic objective of LDz approved under the Cabinet Order No. 421 of 16 June 2021:

To ensure efficient, safe, and sustainable management of the railway infrastructure and also offer competitive logistics, repair, and maintenance services for railway rolling stock, security services for strategically important objects, and promote the development of environmentally friendly rail transport.

In 2023, the issue of approval of the Indicative Railway Infrastructure Management Plan by the Cabinet of Ministers ("Cabinet") was not resolved. The Ministry of Transport, which is the holder of 100% of the state-owned shares of VAS "Latvijas dzelzceļš", is currently working on this document which is due to be approved in 2024. The Indicative Railway Infrastructure Management Plan is the most important policy planning document that determines the development of the railway infrastructure for the needs of the national economy, and the development of the strategy for further development of LDz and internal planning documents, including updating of the Medium-Term Operational Strategy or development of a new strategy, depends on it.

On 31 December 2022, the multi-annual agreement "On planning and financing of maintenance and development of the public-use railway infrastructure under the management of VAS "Latvijas dzelzceļš" concluded between the Ministry of Transport and LDz on 9 November 2018 expired. Work is currently underway with the Ministry of Transport to prepare and conclude a new agreement in line with the requirements of the Railway Law.



VAS "Latvijas dzelzceļš" in facts and figures (2023)



established on 2 September 1991 and is considered the successor to the Latvian Railway Directorate, which was founded on 5 August 1919



100% owned by the Ministry of Transport of the Republic of Latvia



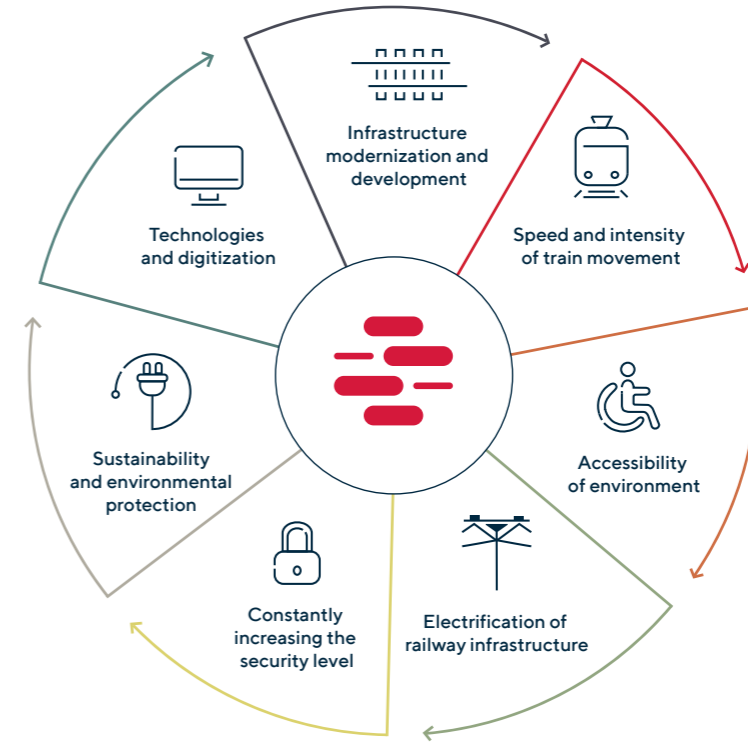
Gold award in the sustainability index in 2023 and Gold award in the sustainability index in 2022



The 5th largest employer TOP 500 in 2023 and The 4th largest employer in 2022

Nasdaq Riga and Prudentia Top101.lv:

- Ranked No. 4 in the transport, transit, and logistics companies category (ranked No. 1 in 2022)
Ranked No. 38 among the list of the most valuable companies in Latvia (ranked No. 24 in 2022)



One of LDz's strategic directions is also to attract more and more new customers to Latvian transit transport and thus promote the use of public railway infrastructure. This can be done by developing an intermodal and multimodal logistics offering, building strategic partnerships, penetrating existing and new markets, and developing the promotion of logistics offerings in the market and sales.

An important task of VAS "Latvijas dzelzceļš" is to facilitate passenger and freight mobility, as well as to achieve the status of railways defined as the backbone of public transport as prescribed in the documents setting out the Latvian transport sector policy.

The priorities for the development of railway infrastructure are defined in the Concept for Infrastructure Development until 2035 of VAS "Latvijas dzelzceļš".



VAS "Latvijas dzelzceļš" in facts and figures (2023 and 2022)



employees

3911

on 31.12.2023

3965

on 31.12.2022



passengers carried

17,134 million

in 2023

15,69 million

in 2022



revenue

EUR 165 million

in 2023

EUR 153 million

in 2022



the volume of freight transported

15,63 million tonnes

in 2023

21,6 million tonnes

in 2022



the Company's value

EUR 171,26 million

in 2023

EUR 232,9 million

in 2022



taxes and duties paid

EUR 43 million

in 2023

EUR 45 million

in 2022



An overview of the infrastructure managed by LDZ

The LDZ infrastructure network is located within the geographical boundaries of the Republic of Latvia. Since the beginning of the development of the railway infrastructure, Latvia has used a 1,520 mm wide rail network for passenger and freight transport, which is wider than the Western European gauge, on which mainly 1,435 mm wide tracks are operated. Latvian railway infrastructure track standard is equal to railway in the Baltic States and eastern neighbouring countries.



1779 km*

The total length of LDZ infrastructure tracks



140*

stations



403*

pedestrian crossings



128*

stops



culverts

1041

in 2023

1042

in 2022



694*

bridges with a total length of 15.8 km



switches

3214

in 2023

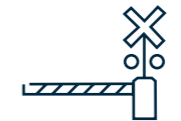
3223

in 2022



43*

overpasses



level crossings

582

in 2023

586

in 2022

(3 level crossings have been wound up, one level crossing temporarily closed)



1520 mm

gauge tracks

1746 km*



250,9 km

electrified sections

33 km*



750 mm

gauge tracks along which the historic Gulbene-Alūksne bānītis runs



up to 120 km/h*

for passenger trains



up to 90 km/h*

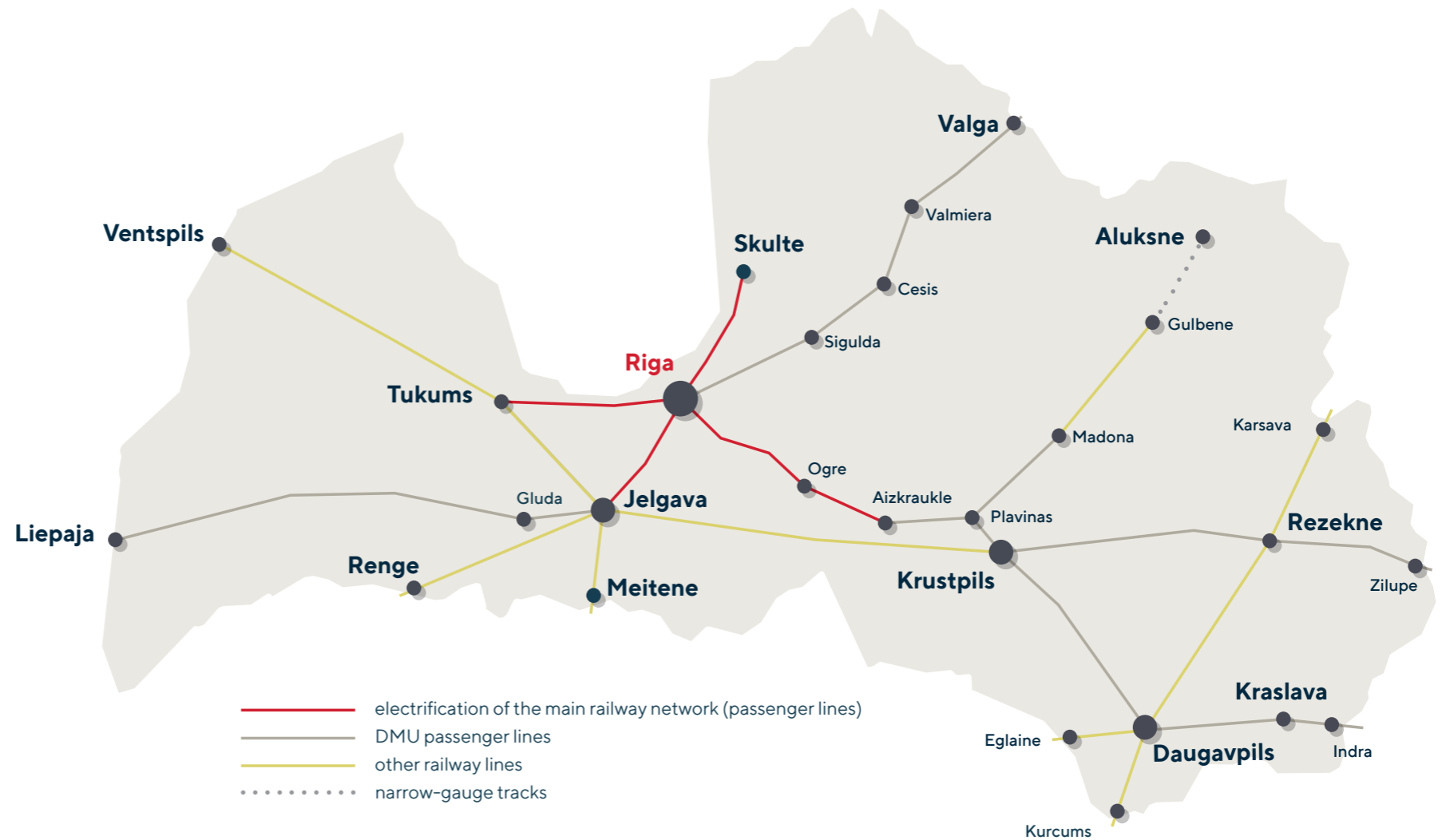
for freight trains

Maximum train speed on the railway infrastructure:

*No changes compared to 2022



LDz infrastructure and electrified zones

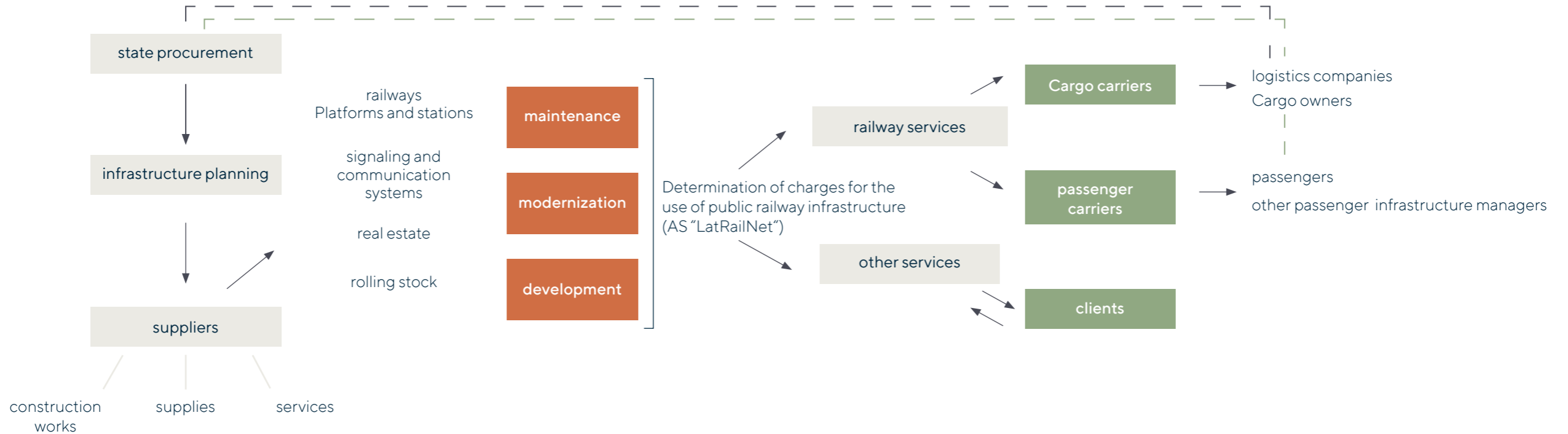


* The DC voltage of electrified lines is 3.3 kV.



LDz's value chain

2-6



VAS "Latvijas dzelzceļš" as an infrastructure manager operates only in the territory of the Republic of Latvia. At the same time, within the Group and in cooperation with foreign partners who carry freight through the infrastructure of VAS "Latvijas dzelzceļš", cooperation is taking place with railway infrastructure managers and railway carriers of the Baltic countries, other European Union countries, and countries outside the European Union.

Unlike in previous years, when the largest part of the revenue of VAS "Latvijas dzelzceļš" was accounted for by freight transport by rail infrastructure, which is mostly related to international transport, in 2023 the largest share (67%) of freight transport was made up of passenger transport, which is domestic transport, i.e., is carried out in the territory of Latvia.

State procurement: LDz's overall strategic objective is set forth in the Cabinet Order No. 421 of 16.06.2021 and that is to ensure efficient, safe and sustainable management of the railway infrastructure, offering also competitive logistics, railway rolling stock repair and maintenance services, security services of the objects of strategic significance, promoting the development of environmentally friendly rail transport.

The Ministry of Transport, which wholly owns 100% of the state-owned shares of VAS "Latvijas dzelzceļš", is currently working on the Indicative Railway Infrastructure Development Plan. The public-use railway infrastructure manager - VAS "Latvijas dzelzceļš" - will carry out its activities in the forthcoming years in accordance with the Railway Law and the guidelines for the maintenance and development of the public-use railway infrastructure set out in the said plan, as well as the principles of financing.



The multi-annual agreement “On planning and financing of maintenance and development of the public-use railway infrastructure under the management of VAS “Latvijas dzelzceļš” concluded between the Ministry of Transport and LDz on 09.11.2018 expired on 31 December 2022. Work is currently underway with the Ministry of Transport to prepare and conclude a new contract under the requirements of the Railway Law.

Infrastructure planning: In accordance with the transport policy planning documents, the LDz is planning maintenance, modernisation, and development work on the railway infrastructure to increase the speed of rail transport, improve the safety, quality, and accessibility of passenger infrastructure and develop other technical capabilities of the railway.

Setting of charges (fees) (AS “LatRailNet”). Decision-making on capacity allocation, train path allocation, including determination and assessment of access, allocation of individual train paths, as well as decision-making on infrastructure charges, including charging and determination of charging schemes, is carried out by AS “LatRailNet”, which is a Group company, and in which the dominant company has an indirect decisive influence.

Rail services: The key service of LDz is railway services, including the provision of services necessary for passenger and freight transport. The largest volume of freight transportation along the Latvian railway infrastructure is provided by the company SIA “LDZ CARGO”, which is a Group company, which also operates in the international freight transport market. Conversely, passenger transportation within the state borders is provided by the company AS “Pasāžieru vilciens”.

Other services: LDz also provides other services, such as real estate rental, sale, management, electricity purchase, and trade services.

Suppliers

VAS “Latvijas dzelzceļš” procures various types of services and goods that are necessary to ensure the operating activity of the company, to ensure the transport of passengers and goods, and to carry out other functions.

Key procurements



repair, construction and infrastructure modernisation works, etc.

construction works



insurance, financial services, legal advice, waste disposal, etc.

services



various raw materials and consumables for infrastructure maintenance and transportation (lubricants, fuel, sleepers, crushed stone, beams, electricity, etc.), technical units, video surveillance systems, equipment, etc.

supplies



Since the main directions of activities of VAS "Latvijas dzelzceļš" are related to the maintenance, modernisation and development of the public-use railway infrastructure, its suppliers can be divided into categories related to the performance of these works:

1. Suppliers who can ensure the supply of the necessary raw materials, such as rails, sleepers, chips, etc., are engaged to carry out maintenance work as well as services related to the maintenance of technologies, for example, operation of signalling and communication equipment, necessary software, etc.;
2. In most cases, the implementation of modernisation work requires both planning and construction and construction supervision, and VAS "Latvijas dzelzceļš" engages appropriately qualified suppliers to carry out such work;
3. LDz development projects usually involve major construction work. Therefore, suppliers with experience in planning, design and construction supervision of such projects are also in demand in this area. Given the volume and complexity of the work, several suppliers or a supplier association may be engaged in a single project. Also, large-scale projects often involve consultants who help to assess the costs and benefits of the project, environmental impact and other aspects.

In addition to the aforementioned categories directly related to the provision of railway infrastructure in accordance with the state mandate, VAS "Latvijas dzelzceļš" also procures services related to legal, management, financial and other consulting services in the company's areas of operations.

The selection of suppliers of the VAS "Latvijas dzelzceļš" is carried out in the form of calls for tenders or price surveys depending on the expected amount of the contract price and in accordance with the procurement regulation, which specifies the procedure to be applied accordingly.

See more information about the procurements and contracts announced by VAS "Latvijas dzelzceļš" in 2023 on [page 92](#) in the section "Selection of business partners and suppliers".

Most of the suppliers are merchants registered in the Republic of Latvia or other European Union countries, however, their deliveries may include the supply of products or materials manufactured outside the European Union. So far, VAS "Latvijas dzelzceļš" has not collected information on the further supply chain.



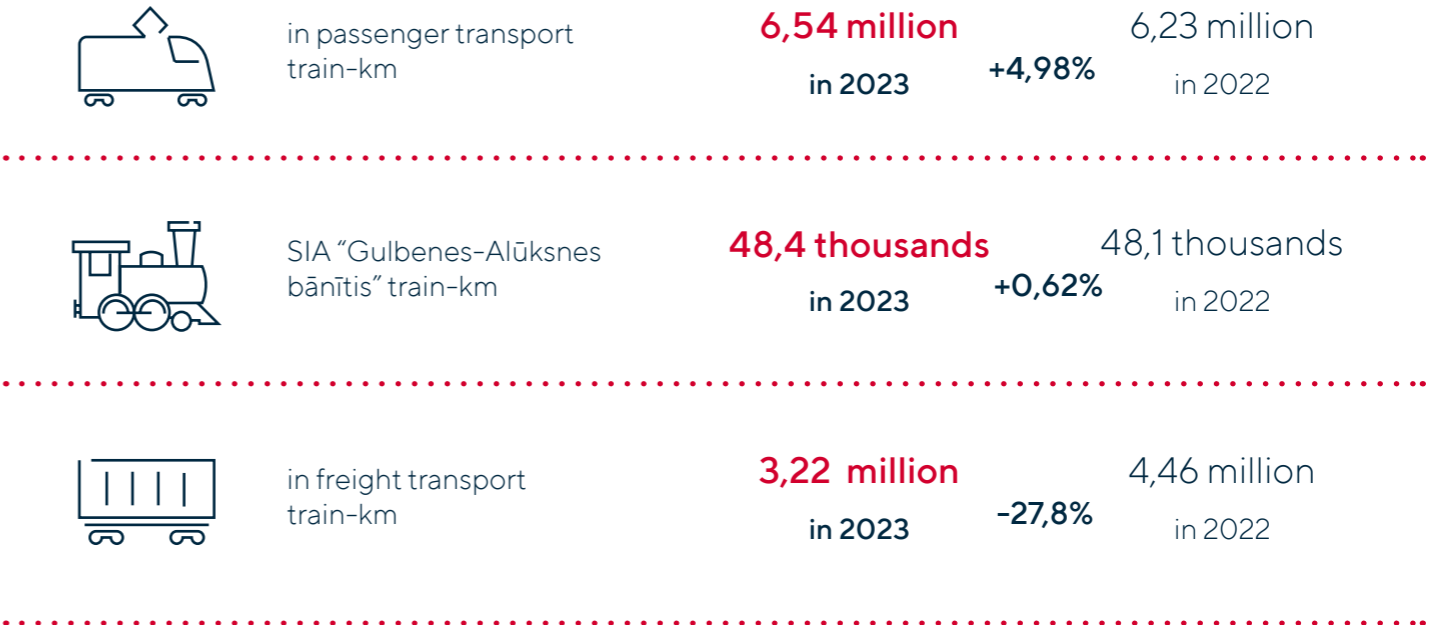
LDz's operating activity in 2023

One of the key performance indicators of VAS "Latvijas dzelzceļš" is a measure of the number of train kilometres travelled by the infrastructure, which is used to calculate the infrastructure charge and to determine the depreciation of the infrastructure.

The activities of LDz continued to be affected by geopolitical processes, in particular the expansion of sanctions against Russia and Belarus in 2023. A large part of the sectoral sanctions (restrictions on freight types) came into force gradually and the impact of the sanctions on the LDz started in the 2nd half of 2022 and continued throughout 2023, therefore a more significant decline in rail freight volumes was observed in 2023.

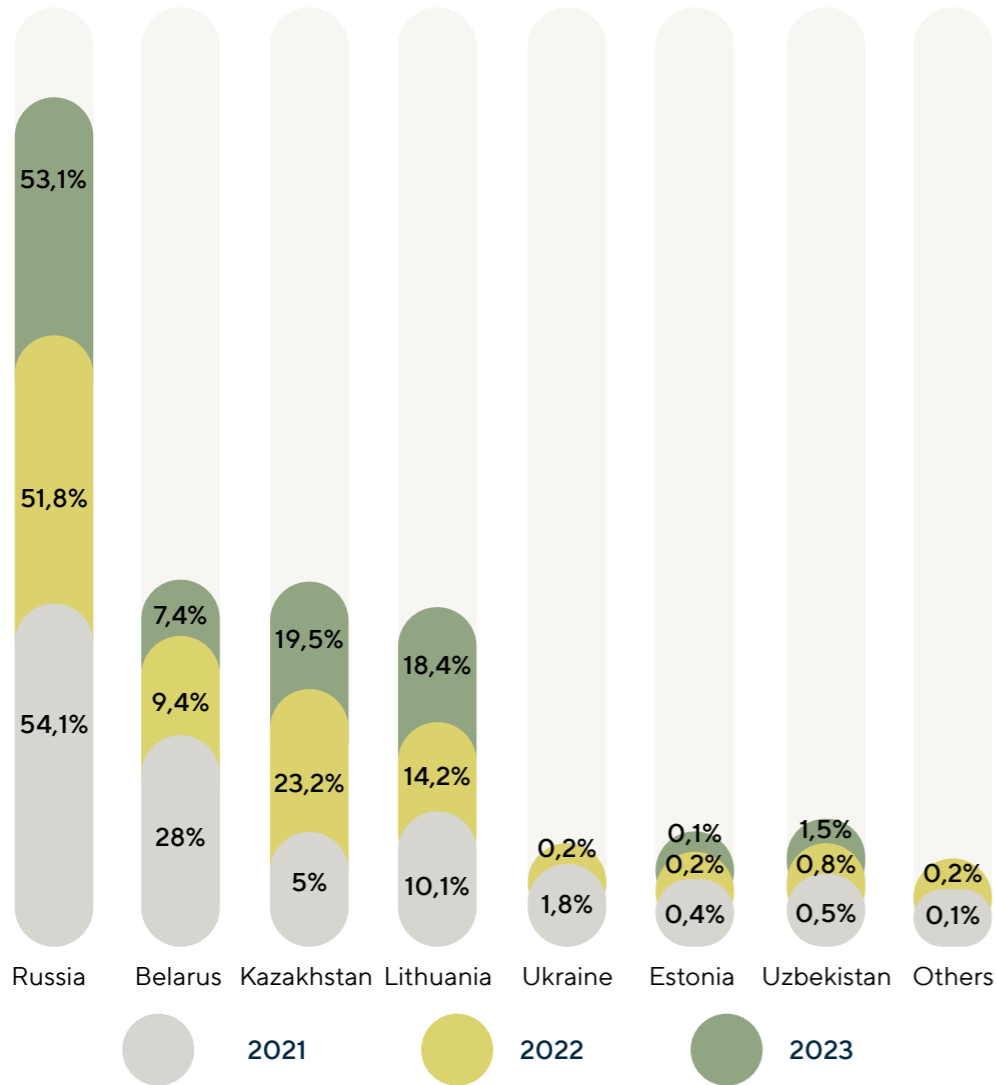
In the 12 months of the reporting year, a total of 15.64 million tonnes of freight were transported via the rail infrastructure (21.59 million in 2022), which is 5.95 million tonnes or 28% less than in 2022.

In 2023, the total number of train-km was 9,77 million and compared to 2022, it has decreased by 9,2%, (in 2022, the total number of train-km was 10,76 million) of which:





Freight transport volumes (imports and road transit) of different countries in 2021-2023






Types of freight transport

	Volumes (thous. tonnes)	Share of total transport volumes	Compared to 2022
Domestic transportation	1 630	10,4%	96%
Export shipments including in direction from port stations	3 499	22,4%	94%
Import shipments including towards the port stations	9 633	61,6%	68,5%
In land transit	8 102	51,8%	67%
	874	5,6%	41,7%



Rail freight transport volume to Latvian ports

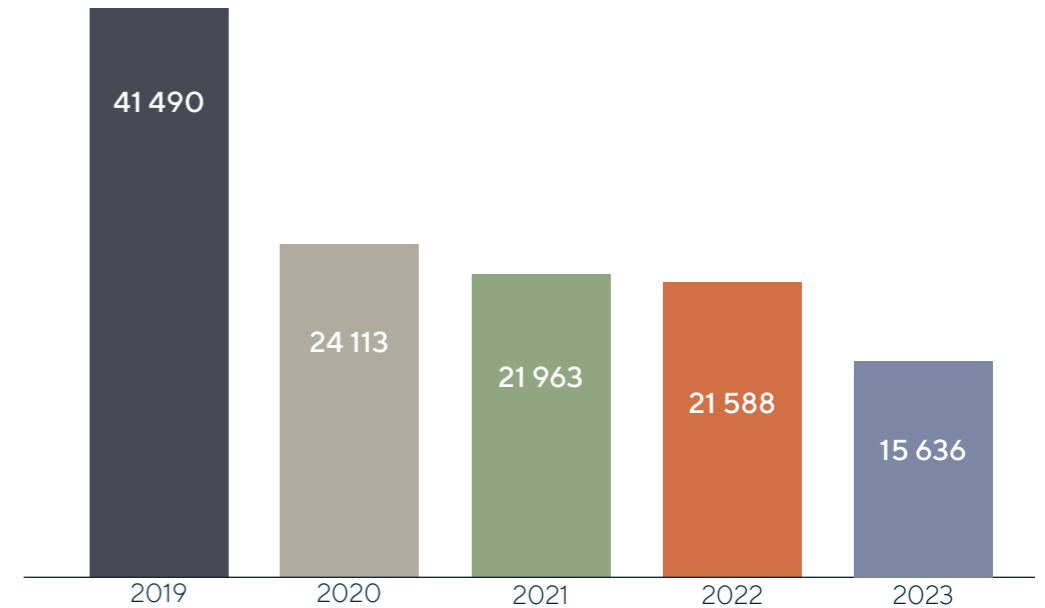
	Volumes (thous. tonnes)	Share in the total volume in the direction of ports	Volumes in 2022 (thous. tonnes)
 In the direction of the Port of Riga	5 173	49,1%	7 198
 In the direction of the Port of Ventspils	1 913	18,2%	5 264
 In the direction of the Port of Liepaja	3 449	32,7%	3 328

The largest volume of freight transportation along the Latvian railway infrastructure is consistently ensured by the company SIA "LDZ CARGO", which is a Group company, which also operates in the international freight transport market. Conversely, passenger transportation within the state borders is provided the company AS "Pasažieru vilciens".

The historic 33-kilometre narrow-gauge railway section has been preserved in Latvia and continues to operate, where passenger transport services between Gulbene and Alūksne are provided by SIA "Gulbenes - Alūksnes bānītis".




As in other areas of passenger transport, the number of passengers in rail transport in 2023 continued to increase, approaching the pre-pandemic level. In 2023, a total of 17.134 million passengers were transported by rail, which is 9.2% more than in 2022, when 15.69 million passengers had travelled by train.

Freight transport volumes in 2019-2023 (thous. tonnes)





Passenger transport services using LDz infrastructure network (million passengers)

	2023	2022	2021	2020	Increase compared to 2022
 Total	17,134	15,69	11,19	12,86	9%
 By electric trains	15,12	13,96	10	11,6	8%
 By diesel trains	2,01	1,73	1,1	1,2	17%

On 27 December 2023, LTG Link, a transport subsidiary of the Lithuanian State Railway Group "Lietuvos Geležinkeliai", started regular passenger services between Vilnius and Riga. Before the start of transportation, the Lithuanian railway company signed an agreement with VAS "Latvijas dzelzceļš" on the use of infrastructure, as well as received a certificate from the EU Railway Agency.

The train departs from Vilnius every day at 6.30 a.m. and arrives at Riga Central Station at 10.43 a.m. From Riga to Vilnius the train departs every day at 15.28, and arrives in Vilnius at 19.51. The journey between the two capitals takes about four hours and 15 minutes.

LDz operating performance

The net turnover of VAS "Latvijas dzelzceļš" in 2023 was EUR 165,409,602, which is 8% more than in 2022. The operating performance in 2023 was zero. LDz has recognised the funds necessary for ensuring the financial balance of the state public-use railway infrastructure manager specified in national laws and regulations in the amount of EUR 32,439,157 in the revenue for 2023, guided by the guidelines of the International Financial Reporting Standards, and will request to cover them after approval of the annual report in accordance with the procedures laid down in Section 9, Paragraph 4 of the Railway Law. In 2022, based on the obligations and duties laid down in the multi-annual agreement, the financial balance payment to be received from the State budget in the amount of EUR 24,358,998 was allocated to the revenue (the operating performance of 2023 was also zero).



In 2023, the measures to promote the efficiency of VAS "Latvijas dzelzceļš" and the Group companies and to reduce costs were continued, with a review of business, organisational and technological processes to ensure the Group's competitiveness, and sustainability in the future. An analysis of functions and changes in organisational structure led to the continued reduction of employees in the dominant company and the Group as a whole.

On 12 April 2023, the liquidation process of the previous subsidiary of VAS "Latvijas dzelzceļš" SIA "LDZ infrastruktūra" was completed - the Enterprise Register of the Republic of Latvia made a decision to exclude SIA "LDZ infrastruktūra" from the Commercial Register. The main activity of SIA "LDZ infrastruktūra" until the time of liquidation was the servicing and leasing of road construction machinery and mechanisms. SIA "LDZ infrastruktūra" started its business activity in July 2007. The decision to start liquidation of SIA "LDZ infrastruktūra" was taken in 2020 aimed at optimising the functions of LDz Group, making its operations more efficient, and reducing expenses. After the liquidation of SIA "LDZ infrastruktūra", the dominant company and five dependent companies make up the Latvijas dzelzceļš Group, in four of which - SIA "LDZ CARGO", SIA "LDZ loģistika", SIA "LDZ ritošā sastāva serviss" and SIA "LDZ apsardze", the dominant company has a direct decisive influence, and AS "LatRailNet", in which the dominant company has an indirect decisive influence.

Highlights and developments in 2023



Promoting efficiency



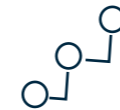
Evaluation of technological processes



diversification of target markets and freight segments



IT system development



Cooperation in the implementation of the Rail Baltica project



Working in the new geopolitical environment



Infrastructure development

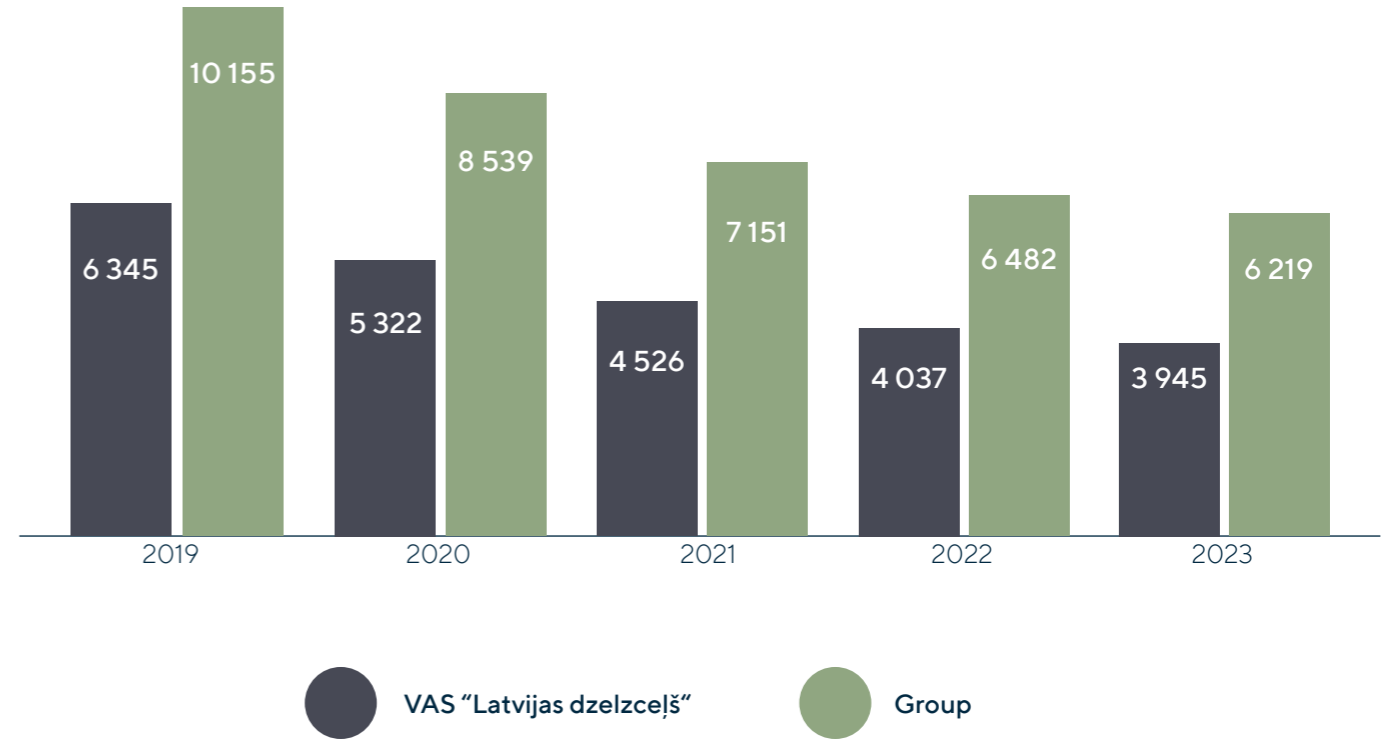


To compensate for the decline in freight volumes in previous years and due to the international sanctions against Russia and Belarus, the Group continued to look for new opportunities to attract freight to existing and new markets in the reporting year. Since the introduction of the first international sanctions against Belarus and Russia, VAS "Latvijas dzelzceļš" has actively sought the best solutions for operating under the new geopolitical circumstances in close cooperation with the Ministry of Foreign Affairs, the Customs Administration of the State Revenue Service and other stakeholders, and has established and continuously improved mutual cooperation in monitoring compliance with the requirements of sanctions control in international freight transport. The activities of the LDz are based on the principles of the rule of law and follow the instructions of the competent authorities in the field of sanctions control. Given the dynamics of sanctions change, this was a challenging time for LDz. In 2023, a decision by the Management Board established the Sanctions Department, whose main purpose is to ensure zero tolerance for sanctions violations and to promote a culture of sanctions compliance within the LDz Group.

In 2023, the reconstruction of tracks and the viaduct works of the Central Multimodal Hub continued at the Riga Central Railway Station and its surroundings as part of the project "Rail Baltica". During this large-scale reconstruction, LDz's task together with its implementers is to ensure the continuity of the station's operation and the availability of the most important services. After the reconstruction of the station, a total of 14 tracks will be open for train movement, of which 4 will be "Rail Baltica" 1,435 mm tracks, and the rest - LDz 1,520 mm tracks.

Along with the mentioned activities, in 2023 LDz also paid significant attention to railway passenger infrastructure development projects, information about which can be found in the chapter "Railway infrastructure development projects" on [page 23](#).

Average number of employees





Railway infrastructure development projects

Modernisation and development of passenger infrastructure

3-3

In 2023, LDZ was also the focus of one of the most ambitious railway passenger infrastructure development projects of recent years – modernisation and construction of passenger platforms at 48 railway stations and stopping points on electrified railway lines Riga – Tukums II, Riga – Skulte, Riga – Krustpils and Riga – Jelgava. The project was originally planned to be completed at the end of 2023, but taking into account the geopolitical factors also mentioned in the informative report of the Ministry of Economics “On the development of the situation regarding the availability of raw materials and construction products and the rapid rise in prices in the Latvian construction sector”, the military aggression launched by Russia in Ukraine in February 2022, which has caused turbulence in the construction sector due to the objective difficulties for the construction companies to ensure the fulfillment of previously assumed obligations within the framework of public construction contracts, construction works were significantly delayed, therefore this project will be phased between two planning periods of EU funds, i.e., 2014-2020 and 2021-2027 planning periods.





All LDz stations and stopping points modernised according to the modular principle will be equipped with high-quality and visually appealing canopies of an appropriate size for the respective place, an appropriate number of benches, bicycle stands, and other equipment as well as a convenient and comprehensible information and notification system.

The total cost of the project is EUR 52 million, co-financing from the EU Cohesion Fund in the amount of EUR 37 million has been raised for the implementation of the project. In 2023, works in the amount of EUR 14.87 million were completed.

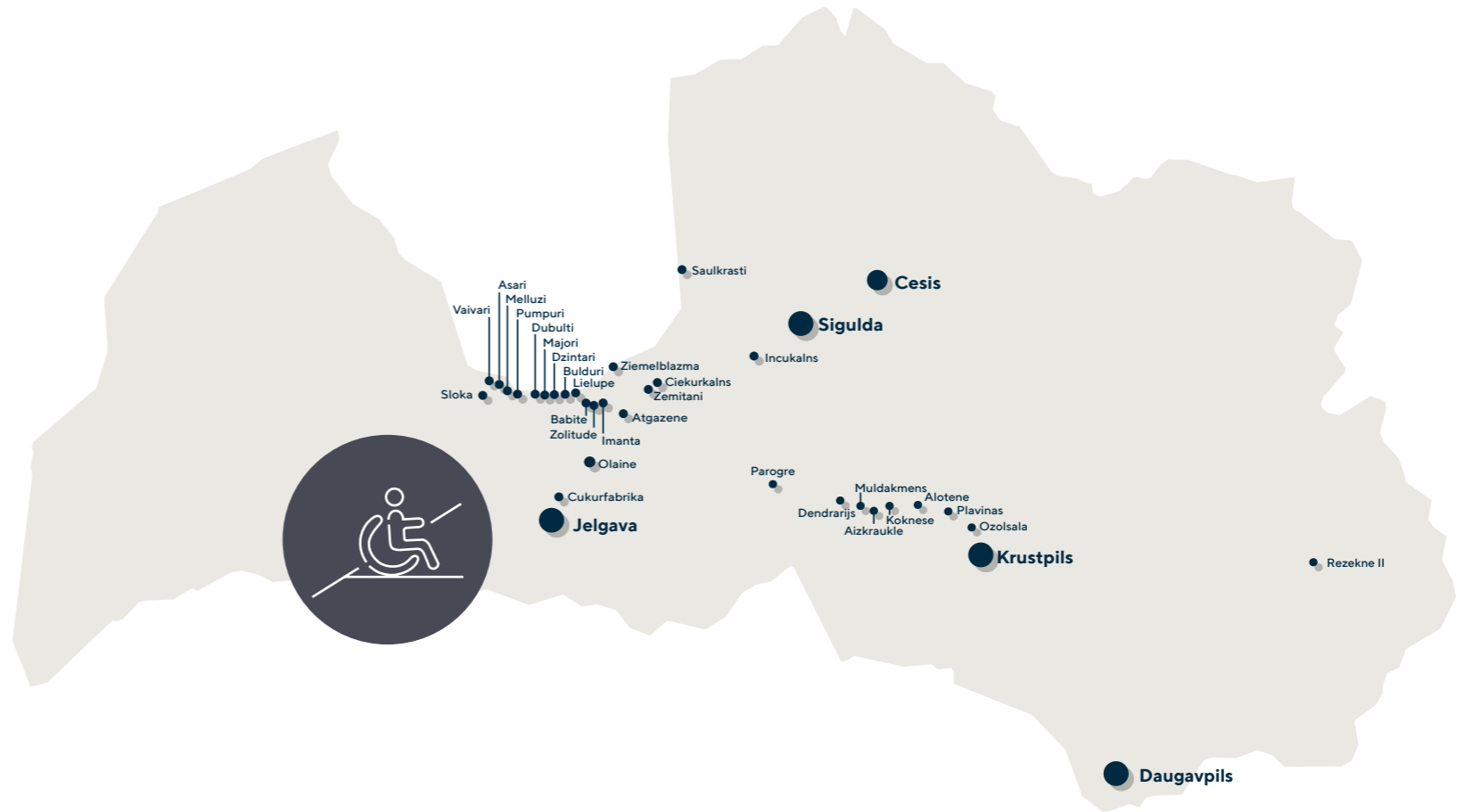
In 2023, active construction works continued in order to complete the modernisation of the Sarkandaugava – Mangaļi – Ziemeļblāzma section of the Riga railway junction by the end of the reporting year. As part of the project, the second track in the Mangaļi-Ziemeļblāzma section was built, as well as the centralisation of microprocessors was modernised to improve the efficiency of the Riga railway junction. This project will significantly increase the level of road safety and improve the quality of life and mobility of the population of the area, as well as reduce the risk of environmental pollution. The total cost of the project was EUR 24.6 million, and 85% co-financing from the EU Cohesion Fund was raised for the implementation of this project. In 2023, the project was completed, finalising the works in the amount of EUR 10.9 million.

Services for passengers with disabilities

3-3; 413-2

According to the EU legal framework, VAS "Latvijas dzelzceļš" is obliged to ensure that persons travelling in a wheelchair have access to passenger platforms as well as to onboarding and disembarking from the train.

Platforms equipped with ramps are available for people with disabilities at the following stations and stops: (no changes compared to 2022):





Historically, the railway infrastructure in Latvia was not designed to be comfortably and safely accessible for persons with reduced mobility. Therefore, "in recent years, "VAS "Latvijas dzelzceļš" has paid special attention to ensuring that the railway infrastructure for passenger transport - stations and stopping points - is accessible for people with disabilities, the elderly, parents with prams and all other people, both in the implementation of various large modernisation projects and in smaller projects.

At Riga Central Station, the electronic display panels are adapted for people with visual impairments, but a ticket counter for domestic travellers is equipped with an induction loop for the comfort of people with hearing aids. Wheelchair passengers are provided with assistance in getting on and off the tarmac and train, including a mobile lift. Since 2019, there has been a "Meeting Place" at Riga Central Station, where, upon prior application, the applicant is provided with assistance in getting to the platform and on the train. The "Meeting Place" is equipped with two chairs and an audio console, which is connected to the railway toll-free reference number 80021181.

Riga Central Station is currently undergoing extensive renovation as part of the "Rail Baltica" project. In the future, accessibility to the area surrounding this facility will be guaranteed in accordance with all modern requirements. However, until the station is modernised, LDz offers a solution for people in wheelchairs to reach the platforms by lift or elevator, as well as a mobile lift that takes people on board the train.

In 2023, the regular rail passenger service from Riga to Liepaja was renewed. Therefore, from August 2023, LDz will also enable passengers with reduced mobility to get on and off the train with the help of a mobile lift at Liepaja station.

Mobile lift service is available at:

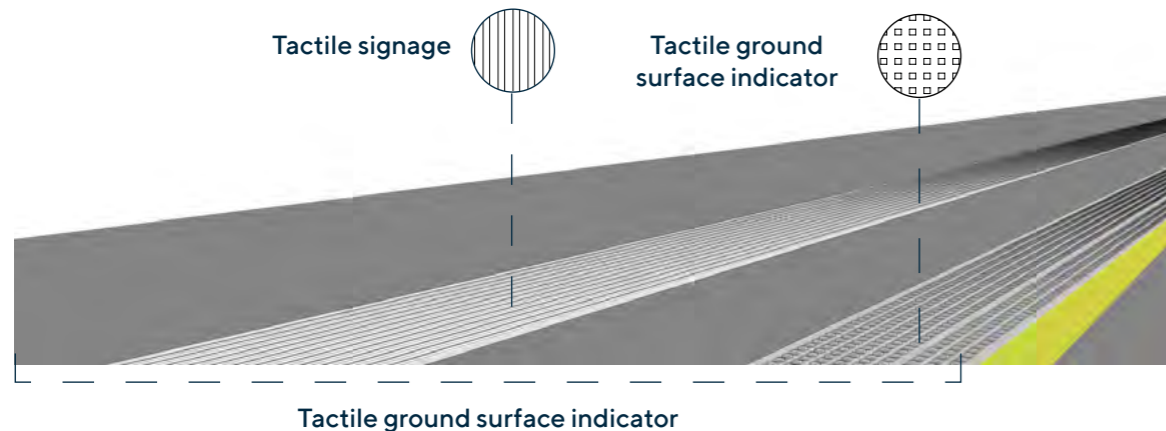


In 2023, 387 requests were received, of which 339 were fulfilled, as in 48 cases a person refused to get the service (in 2022, 513 requests were received, of which 429 were fulfilled).



The universal design standard for passenger infrastructure of VAS "Latvijas dzelzceļš", adopted in 2022, determines the visual appearance of stations, stopping points and passenger platforms, their equipment and the accessibility of the environment. The purpose of the universal design standard is to ensure that the visual aesthetics, safety, intuitive, simple, convenient and pleasant usability, availability and accessibility to all groups of society, as well as maximum ease of maintenance can be achieved. It is important to note that this standard integrates the principles of environmental accessibility developed by the Association of People with Disabilities and Their Friends "Apeiron". The universal design standard of the passenger infrastructure will be applied and implemented by modernizing the existing or building a new passenger infrastructure of LDz. In 2024, a new, supplemented version of the Universal Design Standard for Passenger Infrastructure of VAS "Latvijas dzelzceļš" will be developed and approved.

In all stations and stops to be modernised, tactile guides for people with special needs and people with reduced mobility will be integrated into the platforms, which will be connected as far as possible to the municipality's existing pedestrian infrastructure. LDz also pays attention to the accessibility of the surroundings at the stations and stops that are not yet included in the modernisation projects.



Installation of fencing and pedestrian crossings in railway infrastructure objects

LDz attaches high priority to road safety and is continuously investing in this area. In 2023, a project co-financed by the EU Cohesion Fund to install fences and pedestrian crossings on railway infrastructure should have been completed. However, the contract concluded with the construction company LDz as part of the project was unilaterally cancelled as the contractor with whom the contract for the execution of the construction work had been concluded was unable to fulfil its obligations.

At the same time, while the project "Installation of fences and pedestrian crossings at railway infrastructure objects" was cancelled, the installation of fences was included in several other projects to improve the safety of railway traffic:

- As a part of the EU co-financed project "Modernisation of the Sarkandaugava – Mangaļi – Ziemeļblāzma section of the Riga railway junction", completed in 2023, a pedestrian safety fence was built (2 km) restricting free access to the public railway infrastructure;
- As a part of the project "Modernisation of railway passenger infrastructure", it is planned to build a fence at the Boldeja stop and Zemitani station;
- As a part of the project "Modernisation of the railway infrastructure to increase the speed of rail traffic", it is planned to build a fence with a total length of 12.5 km.



Replacing the contact network

To make the railway more environmentally friendly, LDz continued to work on the project to replace the existing but technically outdated 3.3kV contact network system with a 25 kV system and gradually expanded the electrified railway network in the reporting year. This will bring various benefits, including reducing the cost of energy supply systems, the possibility of integration into the common European rail network, stabilising the efficiency of the power supply in the lines, enabling more intensive and faster passenger train services and motivating freight transport companies to switch to electric traction.

With co-financing from the EU Cohesion Fund for the period 2021-2027 and funding from the Recovery and Resilience Facility, it is planned to implement two railway infrastructure electrification projects in 2024, modernising the electrified sections on the Riga-Tukums line, ensuring migration to the 25kV system at the Riga junction and expanding the electrified zone in the Zaslauks-Bolderaja section and on the Aizkraukle-Krustpils line. The total funding for both projects is EUR 207.7 million.

It is also planned to implement the development of the railway infrastructure of zero-emission trains in the coming periods by constructing a contact network on the Zemitani-Garkalne railway section. The project is financed by the Recovery and Resilience Facility and totals EUR 74.4 million.

Development of interoperable railway system in the Baltic States

In 2023, work continued on a project aimed at introducing a new technological model in Latvian and Estonian railways by gradually migrating the station and train control system to modern information technology systems that are interoperable in the Baltic and European markets.

In 2019, VAS "Latvijas dzelzceļš" and Estonian AS "Eesti Raudtee" signed a Grant Agreement with the Innovation and Networks Executive Agency (INEA) on the implementation of the project "Development of an interoperable railway system in the Baltic States" with the aim of replacing the automated transport operational management system currently in operation of LDz with a new operational transport management system and supplementing the existing transport management system in Estonian Railways.

The project "Development of an interoperable railway system in the Baltic States" provides for

- An analysis of the feasibility of implementing telematics applications for passengers and freight (legislation; business model; processes; system architecture)
- Development of a common system concept
- Implementation of a prototype of a real-time rail transport management system
- For the development of technical specifications and the purchase/implementation of systems - infrastructure management and interoperability with the CIS railway system

The project is implemented with 40% co-financing from the Connecting Europe Facility (EISI) / (CEF). In 2023, works in the amount of EUR 0.74 million were completed, and the project is expected to be completed by the end of 2024.



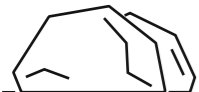
Activities of subsidiaries

The subsidiaries provide a wide range of services in the railway sector, including rail freight transport, maintenance, repair and modernisation of rolling stock, physical and technical security services, development and provision of international multimodal logistics services and the performance of essential rail infrastructure functions and are responsible for setting infrastructure charges and allocating rail transport capacity.



Most of LDZ Group's revenue is generated by SIA "LDZ CARGO", which is one of the most significant transport and logistics companies in Latvia. During the reporting year, as sectoral sanctions against Russia and Belarus expanded, the volume of freights transported by rail infrastructure, including SIA "LDZ CARGO", continued to decrease. At the same time, to attract new freight volumes and diversify freight segments, SIA "LDZ CARGO" started freight transportation in the territory of Estonia in January 2023, and in June opened a branch there. In 2023, the company transported 384 thousand tonnes of cargo through the territory of Estonia, while continuing to work on attracting customers and developing new routes. SIA "LDZ CARGO" plans to develop its activities also in Lithuania and in 2023 concluded an agreement with LTG INFRA on the use of the Lithuanian public railway infrastructure. The first transport on the territory of Lithuania was already carried out at the end of 2023 - railway rails with a span of 50 m were transported from the port of Klaipeda to Tallinn for the customer to implement the "Rail Baltica" project.

Key freight segments

	grain and grain processing products	37,8% 22,7%	in 2023 in 2022
	oil and oil products	15,5% 18,8%	in 2023 in 2022
	ores	9,8% 8,3%	in 2023 in 2022



freight transportation in the territory of Latvia

14,78 million tonnes
in 2023

19,97 million tonnes
in 2022



freight transportation in the territory of Estonia

384 000 tonnes
in 2023

0 tonnes
in 2022



net revenue from operating activity

EUR 134,37 million
in 2023

EUR 148,44 million
in 2022



profit

EUR 3,068 million
in 2023

EUR 5,1 million
in 2022



Awarded the Platinum category in the Sustainability Index



SIA "LDZ Logistika", a subsidiary of VAS "Latvijas dzelzceļš", offers customers intermodal freight forwarding and logistics services, thus attracting new customers for the Latvian transit sector and promoting the use of the public-use railway infrastructure. SIA "LDZ Logistika" works closely with carriers, ports, terminals, as well as other companies that provide transportation services both in Latvia and abroad.

During the reporting year, SIA "LDZ Logistika" continued cooperation with customers who needed transportation from the European Union and other countries through Latvia as a transit country, offering a wide range of services with all kinds of modalities: road transport, sea, railway, transshipment works.



SIA "LDZ apsardze", a subsidiary of VAS "Latvijas dzelzceļš", is one of the leading companies in Latvia in the field of security services, providing physical security services for objects and goods. It designs and installs security, fire protection and video surveillance systems, carries out their maintenance and servicing and monitors incoming alarm signals. The company SIA "LDZ apsardze" has obtained a special permit for permanent security activities No. 146/2016-TA and the Industrial Security Certificate No. 380, and its management system is certified in accordance with the requirements of the ISO 9001:2015 standard.

In 2023, the company continued expanding its technical security services and offered customers a wide range of security and fire protection services. By actively participating in various tenders for security services, SIA "LDZ apsardze" gained new customers outside the Group. The activities of SIA "LDZ apsardze" were successful in the reporting year and the company's revenue from operating activity totalled EUR 9.3 million.



net revenue from operating activities

EUR 14,8 million
in 2023

EUR 19,2 million
in 2023



profit

EUR 264 373
in 2023

EUR 711 989
in 2022



Awarded the Gold category in the Sustainability Index



net revenue from operating activities

EUR 9,3 million
in 2023

EUR 7,59 million
in 2022



profit

EUR 242 431
in 2023

EUR 193 367
in 2022



Awarded the Silver category in the Sustainability Index



LDZ RITOŠĀ SASTĀVA SERVISS

SIA "LDZ ritošā sastāva serviss", a subsidiary of VAS "Latvijas dzelzceļš", carries out maintenance and repair work on rail vehicles, equipment and modernisation of locomotives. The company's main services also include the rental of main freight, shunting diesel locomotives and track-laying machines, maintenance of the reserve base of locomotives and the sale of fuel.

In 2023, the effects of international sanctions and geopolitical events continued, rendering the supply of spare parts and materials difficult. However, suppliers are increasingly making it possible to import equivalent goods from both Ukrainian and EU producers. SIA "LDZ ritošā sastāva serviss" carries out repair work on all rail vehicles operating on tracks with a width of 1,520 mm, ensuring high quality standards in the implementation of its repair programme. In 2023, SIA "LDZ ritošā sastāva serviss" successfully carried out the planned repairs, using stocks and supplies from manufacturers from EU countries and Ukraine.

LATRILNET

The dominant company of AS "LatRailNet", which is a Group company, has indirect decisive influence. AS "LatRailNet" performs the essential functions of the public-use railway infrastructure manager- decisions on the allocation of infrastructure capacity, the allocation of train paths, including the determination and assessment of access and the allocation of individual train paths, as well as decisions on the levying of infrastructure charges, including the levying of charges and the determination of charging schemes. The AS "LatRailNet" performs its tasks in such a way that it promotes the implementation of LDz's Medium-Term Operational Strategy and the business model of LDz while strictly observing the principle of equal treatment of railway undertakings and applicants.

	net turnover	EUR 50,9 million in 2023	EUR 59,6 million in 2022
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	profit	EUR 1,23 million in 2023	EUR - 325 226 in 2022
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	Awarded the Gold category in the Sustainability Index		
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	net turnover	EUR 1,42 million in 2023	EUR 1,3 million in 2022
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	profit	EUR 64 990 in 2023	EUR 37 569 in 2022
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	Did not participate in the Sustainability Index		
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Information on employees of VAS "Latvijas dzelzceļš" in 2023 2-7; 2-8

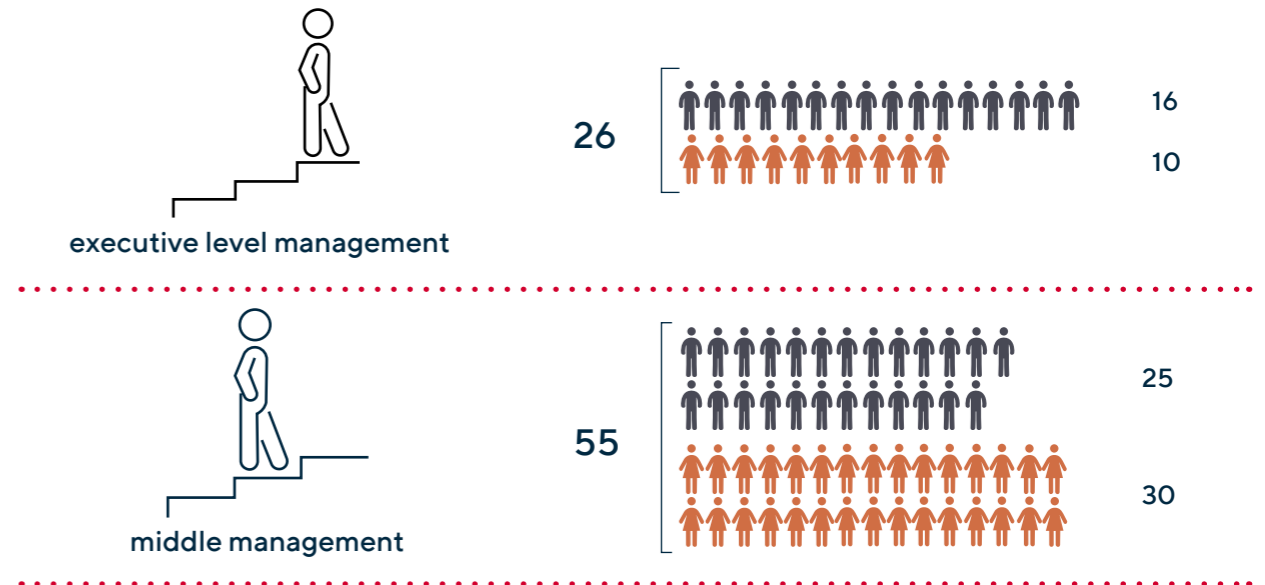
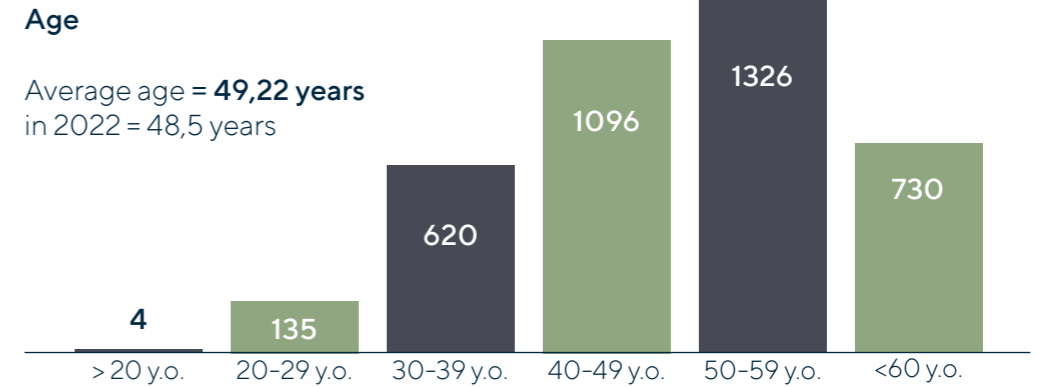
In 2023, the measures to promote the efficiency of VAS "Latvijas dzelzceļš" and the Group companies and to reduce costs were continued with a review of business, organisational and technological processes in order to ensure the Group's competitiveness and sustainability in the future. The reduction in the headcount of employees in the dominant company and in the Group as a whole was also continued through a targeted review of functions and changes to the organisational structure. One of the current issues in the area of human resource management at LDz in recent years is the recruitment of new employees and motivational measures for employees of early retirement age to pass on their expertise to the young professionals.

In 2023, 37 of the company's employees retired. In turn, to motivate younger employees to build a career in the company, employees are offered the opportunity to participate in various motivation and skills development programmes, so that the number of young specialists at VAS "Latvijas dzelzceļš" is also gradually increasing. LDz's structural units are located throughout Latvia, where the company's employees ensure high-quality and safe maintenance of the railway infrastructure. Most employees work in Latvia's major cities, which are also the main railway hubs for both freight and passenger transport.

Type of employment contract

Contract Type	in 2023	in 2022	Male	Female
permanent contracts	3 874	3 936	2 531	1 343
temporary contract	33	21	14	19
authorisation contracts	4	8	3	1

VAS "Latvijas dzelzceļš" employs only employees of the company.





Gender breakdown of employees



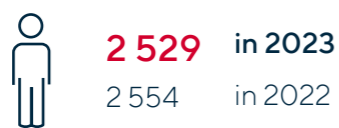
Employees



Headcount of employees by type of employment (full-time and part-time), by gender



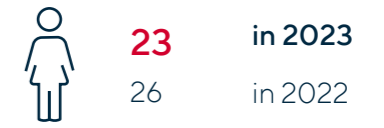
full-time



3 869	in 2023
3 923	in 2022



part-time



42	in 2023
42	in 2022



04

CORPORATE
GOVERNANCE



Governance model

2-9

The management model of VAS "Latvijas dzelzceļš" complies with the principles of good corporate governance practice. The company has the following bodies: the shareholders' meeting, the Council and the Management Board.

The Shareholders' Meeting elects the Council, which in turn elects the Management Board and is its supervisory body.

To ensure effective management, the adoption of decisions and the achievement of objectives, the strategic and operational management of the organisation are separated. The development and strategic planning of LDz are implemented by the Management Board, but operational management is ensured by the heads of the structural units of the Directorate General. The Directorate General of LDz ensures the implementation of the resolutions of the Management Board, the orders and instructions of the Chairman of the Management Board and the members of the Management Board in accordance with the law, the regulations of the Cabinet, the Articles of Association of LDz, the resolutions of the Shareholders' Meeting, the Council, the Management Board and other legal acts that regulate the activities of LDz and are binding on it. It organises the performance of the functions of VAS "Latvijas dzelzceļš", develops a strategy, policies, procedures, operations, a business plan, a budget and other documents regulating the activities of VAS "Latvijas dzelzceļš" and the Group.

The provision of the operating activity of VAS "Latvijas dzelzceļš" is carried out by structural units that are responsible for daily work on tracks, at stations and stopping points, as well as real estate management, train movement management, high-quality maintenance of information systems.

The company has the following bodies:



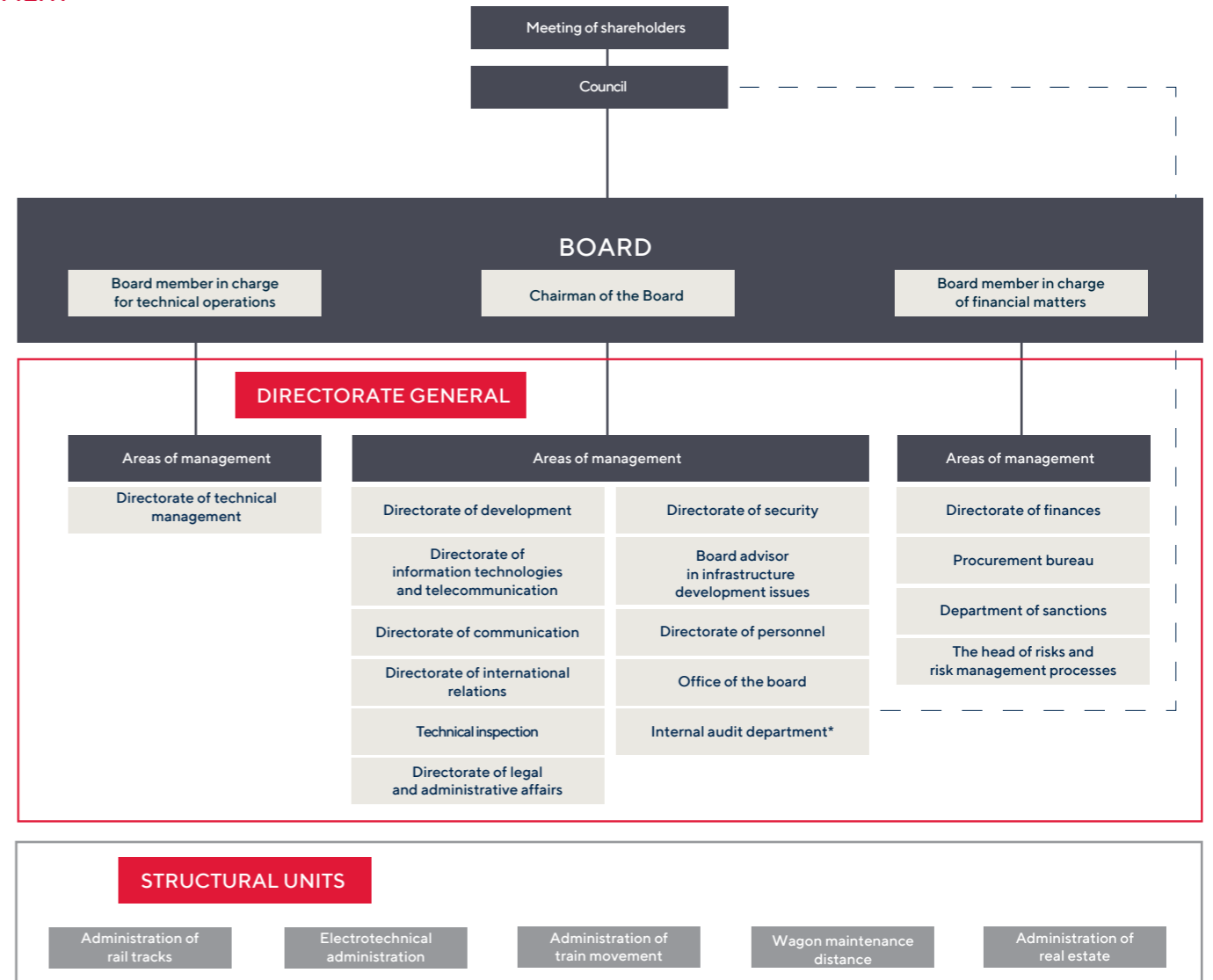
the Shareholders' Meeting



the Council



the Management Board.



*Internal audit department - functionally subordinated to the Council of the Company, administratively subordinated to the Board of the Company

The organisational structure chart of VAS "Latvijas dzelzceļš" on 31 December 2023



VAS "Latvijas dzelzceļš" and all other companies of the Group are headed by management boards, councils have also been established: in the dominant company VAS "Latvijas dzelzceļš" and three subsidiaries – SIA "LDZ CARGO", SIA "LDZ ritošā sastāva serviss" and AS "LatRailNet".

Shareholders / Owners

The interests of the shareholder are represented at the Shareholders' Meeting of LDz by the State Secretary of the Ministry of Transport or another official of the Ministry determined by an order of the State Secretary, who has all the rights, duties and responsibilities of the representative of the holder of capital shares provided for in the legislation. The supervision of the activities of VAS "Latvijas dzelzceļš" is implemented in accordance with the [Law on the Governance of Capital Shares of a Public Person and Capital Companies](#), which clearly defines the cooperation mechanisms for holding meetings of shareholders and exchanging information.

In 2023, three Shareholders' Meetings took place, at which amendments to the Articles of Association of VAS "Latvijas dzelzceļš" were adopted, which provide that both the Council and the Management Board of LDz consist of three members, and a decision was made on the composition of the Council of LDz. Issues relating to the annual report of VAS "Latvijas dzelzceļš" for 2022, the consolidated financial statements and the consolidated operating performance of the Group were examined. The results of the internal audit for 2022 were also reviewed and the internal audit work plan for 2023 was approved. The Shareholders' Meeting also examined the issue of obtaining prior consent to encumber the property of the capital company with rights in rem, took note of information on the implementation of the resolutions of the Shareholders' Meetings in 2022 and familiarised itself with the Management Board's report on the threat of insolvency. The Shareholders' Meeting approved the transfer of the capital company's property to the "Latvian Railway Industry Pensioners' Organisation for use free of charge and familiarised itself with the information provided by the Management Board on the action against AB "Lietuvos geležinkeliai" (Lithuanian Railways).

The Council

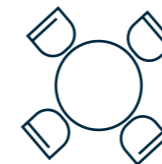
2-10, 2-11, 2-17

The principles of the organisation of the activities of VAS "Latvijas dzelzceļš" Council and cooperation with shareholders are set out in the Rules of Procedure of the VAS "Latvijas dzelzceļš" Council. Until 13 January 2023, the Council of VAS "Latvijas dzelzceļš" consisted of five persons, but by resolution of the extraordinary Shareholders' Meeting of 13 January 2023, the Articles of Association of VAS "Latvijas dzelzceļš" were amended and it was determined that the Council of LDz shall consist of three members.

On 21 November 2023, Jānis Lange, Chairman of the Council, resigned from the position of Chairman of the Council of VAS "Latvijas dzelzceļš". On 31 December 2023 and at the time of publication of this report, the Council operate in the composition of two members of the Council.

Composition of the Council on 31 December 2023:

- **Andris Liepiņš** – Deputy Chairman of the Council, an independent Member of the Council
- **Reinis Ceplis** – an independent Member of the Council



Council meetings

18
in 2023

22
in 2022



decisions were passed

170
in 2023

154
in 2022



Andris Liepiņš

Deputy Chairman of the Council of VAS "Latvijas dzelzceļš", an independent Member of the Council

Term of office: 07.06.2019 - 06.06.2024

He graduated from Riga Business School of Riga Technical University with a Master's degree in Business Administration, Columbia University (USA) with a Master's degree in International Relations and the University of Latvia with a Master's degree in Public Administration and a Bachelor's degree in Economics. He was Vice Chairman of the Council of AS "Latvenergo", a Member of the Audit Committee and Human Resources Committee, Chairman of the Management Board of VAS "Riga International Airport". A. Liepiņš currently also serves as a Member of the Council of AS "Air Baltic Corporation" and a Member of the Council of SIA "Rīgas nami".



Reinis Ceplis

An independent Member of the Council of VAS "Latvijas dzelzceļš"

Term of office: 07.06.2019 - 06.06.2024

He graduated from the Faculty of Economics of the University of Latvia with a Bachelor's degree in Economics and obtained the title of Certified Financial Analyst (CFA Institute) in the USA. Chairman of the Council of the auditing company "Baker Tilly Baltics" and Member of the Management Board of the Family Health Centre "Stārķa ligzda", as well as Chairman of the Management Board of SIA "Good Health" and Head of Healthcare Product Development at SIA "Respectful Consulting".

He was CEO of SIA L&T, the Latvian subsidiary of the Finnish public limited company AS "Lassila & Tikanoja PLC", CFO of AS "A.C.B.", corporate finance specialist of the investment bank "SUPREMA", corporate finance specialist of the investment bank "Trasta komercbanka" and head of the Listing Department of the Riga Stock Exchange.



The appointment procedure for the Members of VAS "Latvijas dzelzceļš" Council is in line with best corporate governance practice, ensures an open, fair and professional selection of Council members and thus facilitates the establishment of a professional and competent body of a capital company.

The procedures for the selection and dismissal of council members of LDz as a capital company of a public person and its dependent companies are laid down in the external legislation adopted on its basis and are followed.

On the basis of the Law on the Governance of Capital Shares of a Public Person and Capital Companies and in accordance with the Cabinet Regulation "Procedures for Nominating Members of the Management Board and Council in Capital Companies in which the Capital Shares Belong to the State or a Derived Public Person", the procedure for the selection of candidates for the Council members, the evaluation procedure for the positions of Council member and Board member is carried out by the Nomination Committee, which is composed of representatives appointed by the holders of capital shares or the Council of capital companies with voting rights, independent experts and representatives appointed by the Cross-Sectoral Coordination Centre).

The composition of the Council is designed to ensure the competences, independence in evaluation and decision-making necessary for good corporate governance and VAS "Latvijas dzelzceļš". Information about the professional experience and education of the Council members is published on the company's website. Currently, both members of the Council are independent members of the Council in the Council of LDz and fulfil the independence requirements set out in external legislation.

At the moment, both members of the Council are men; women are not represented on the Council. The term of office for members of the Council is five years.

Audit Committee

The Audit Committee of the LDz Council was set up to support the LDz Council in monitoring the preparation of its annual reports and in carrying out tasks to monitor the functioning of the internal control and risk management system. It works in accordance with the statutory provisions and in compliance with the principles of good corporate governance. The rules of procedure of the Audit Committee set out the tasks, rights and duties of the Committee, its activities, liability and the composition and structure of the Committee, and are published on the LDz website. The Audit Committee has a duty to report to the Council on the deficiencies identified: preparation and/or review of financial statements and consolidated financial statements, efficiency of internal control and risk management and internal audit activities, and to immediately report on the non-compliance of a sworn auditor with the Law on Audit Services. The chairman of the Audit Committee is Reinis Ceplis and the Member of the Committee is Andris Liepiņš.



The role of the Council and the Management Board on sustainability matters

2-12; 2-13; 2-14; 2-17

The medium-term operational strategy of VAS "Latvijas dzelzceļš" for 2021-2025 was approved by a Council Decision and the Council monitors its implementation of the strategy in accordance with its Rules of Procedure. Every six months, a report on the implementation of the action plan for implementing the strategy is submitted to the holder of capital shares, which is reviewed and approved at the Council meeting.

The LDz Council is the supervisory body that oversees the work of the Management Board of LDz and the Rules of Procedure of procedure define the areas of responsibility and activities of the Management Board members, including the pursuit of the company's interests in certain areas. These areas also include sustainability issues - environmental protection, traffic safety, occupational safety, monitoring the procurement process, human resources management, internal and external communication and other topics.

In order to ensure more efficient management of the areas under their responsibility, the Members of the Management Board are in charge of the departments of the Directorate General, and they may issue orders and binding instructions in their area of responsibility to the employees of the departments they are in charge of.

In accordance with the Rules of Procedure of the LDz Council, one of the tasks of the Council is also to approve the most important policies, which define the principles of operation of VAS "Latvijas dzelzceļš" in relation to risk management, prevention of conflict

of interest, combating corruption, corporate governance, remuneration, dividends, internal audit, disclosure of information, circulation and confidentiality, whistleblowing, implementation of fair competition, diversity, sustainability, business partner research, sanctions risk management, persons data processing and reviewing annual reports to the Council on the basis of key policies.

The representatives of the company's management - both the Council and the Management Board members - are constantly improving their knowledge of corporate governance and sustainability issues, including by attending various training courses. All Members of LDz's Management Board and Council have received the Certificate of Professional board and council member from the Baltic Institute of Corporate Governance.

The Council and the Management Board of LDz also played a significant role in determining the essential sustainability areas of LDz by participating in interviews, as well as after collecting the opinions of external and internal influencers, identifying the important sustainability areas of LDz and creating a matrix of significant sustainability areas, getting acquainted with the result of this process.

Also, the Chairman of LDz's Management Board prepares a statement of the Sustainable Development Strategy, which is included in the introductory part of this report. The sustainability report is approved at the Management Board meeting and after approval it is also presented to the Council of LDz.

Communication of critical concerns

2-16

The Rules of Procedure of the LDz Council lay down the procedures for the circulation of information and the right of the Council to request information from the Management Board, which is necessary for the Council for decision-making. Information for taking of decisions shall be submitted to the Council one week before the day of the meeting or within a shorter time period in accordance with the decision of the Chairman of the Council. The Council of LDz is obliged to provide information to the shareholder on important issues related to the Company's commercial activities, for example, if the financial situation deteriorates. At each meeting of the Council, the Management Board of LDz informs the Council of LDz about the results of the company's operational activities, including problems significant for the company.

Assessment of the Council's performance

2-18

Once a year, the Council of VAS "Latvijas dzelzceļš" performs a self-assessment and information on the self-assessment carried out by the Council and the main conclusions on its results are submitted for consideration at the Shareholders' Meeting.

On 27 June 2023, the self-assessment of the Council's work for the year 2022 was approved by a resolution of the Council and, in general, the LDz's Council assessed its performance in 2022 as sufficiently effective both in pursuing the interests of the shareholder and in performing the Council's tasks and organising its work. The Council's self-assessment for 2023 had not yet been approved at the time this report was prepared.



Remuneration of Members of the Council 2-19

The remuneration of Members of the Council is determined in accordance with the requirements of the Law on the Governance of Capital Shares of a Public Person and Capital Companies and Cabinet Regulation No. 63 Regulations Regarding the Number of Members of the Management Board and Council of Capital Companies of a Public Person and Public Private Capital Companies, as well as the Maximum Amount of Monthly Remuneration of Members of the Management Board and the Council of 4 February 2020. The members of the LDz Council do not receive a variable portion of their remuneration and no compensation is paid in the event of dismissal or resignation from office.

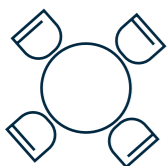
The total remuneration paid to the Members of the Council of LDz in 2023, including national social insurance mandatory contributions, EUR 100,251.98. (In 2022: EUR 164,589).

Management Board 2-10

The Management Board is the executive body of LDz that manages and represents the company. The Management Board is responsible for the business activities of LDz, for keeping the accounts in accordance with the law, for managing the property of LDz and for managing the company's funds in accordance with the law, the Articles of Association of LDz, the resolutions of the Council and the Shareholders' Meeting. The internal rules of procedure and the functioning of the company's Management Board are determined by the rules of procedure of the Management Board of VAS "Latvijas dzelzceļš". The procedures for the nomination and election of Members of the Management Board of LDz, as well as the mandatory requirements to be met by candidates, are determined by the Law on the Governance of Capital Shares of a Public Person and Capital Companies, the Cabinet Regulations issued on the basis of the said Law and the guidelines of the Cross-Sectoral Coordination Centre.

The process for appointing Members of the Management Board follows the principles of best corporate governance and ensures an open, fair and professional selection of the Members of the Management Board, thereby facilitating the establishment of a professional and competent institution of the capital company. The composition of the Management Board is designed to ensure the competences required for good corporate governance, independence of judgement and decision-making and LDz types or sectors.

On 13 January 2023, at the extraordinary Shareholders' Meeting, a decision was made to make amendments to the Articles of Association of VAS "Latvijas dzelzceļš", stipulating that the Management Board of LDz consists of three members. Also, during the reporting year, there have been changes in the composition of the Management Board. On 9 February 2023, the Council of LDz adopted a decision to remove Māris Kleinbergs, Chairman of the Management Board of VAS "Latvijas dzelzceļš", from his position. Rinalds Pļavnieks, the former Member of the Management Board, was appointed as the Chairman of the Management Board until the end of the competition, but on 19 June 2023, at the end of the nomination procedure and according to the results of the open competition, Rinalds Pļavnieks was elected chairman of the Management Board of VAS "Latvijas dzelzceļš". The Management Board currently consists of one man and one woman.



Management Board meetings

70 in 2023

59 in 2022



Management Board decisions were passed

413 in 2023

411 in 2022



Rinalds Pļavnieks

Chairman of the Management Board of VAS "Latvijas dzelzceļš"

Term of office from 20.07.2023-19.07.2028

Since 2020, R. Pļavnieks has been the Head of the Railway, Air, Marine and Bulky Goods Department of the Baltic Sea Region of SIA "GEFCO BALTIC", and until then the Director of global clients in the "GEFCO" SA Group at its head office in France. Until 2016, he worked as a business development manager at GEFCO UNITED KINGDOM LTD in the United Kingdom, but from 2012 to 2015, he also held various positions at SIA "GEFCO BALTIC".

R. Pļavnieks has experience as a lecturer at Riga Technical University at the Faculty of Computer Science and Information Technology and at the Faculty of Engineering Economics and Management. R. Pļavnieks has also been a lecturer at the Latvian Maritime Academy – in the Bachelor's programme "Transport and Logistics" and "International Business Strategy" in Port and Shipping Management.

R. Pļavnieks studied at the Latvian Maritime Academy, where he obtained a qualification in port management economics and a master's degree – in maritime transport management engineering.

Since 2021, he has been a Member of the Management Board of VAS "Latvijas dzelzceļš".



Vita Balode-Andrūsa

Member of the Management Board of VAS "Latvijas dzelzceļš"

Term of office: 01.06.2020-31.05.2025

From 2009, V. Balode-Andrews was employed by Swedish airport operator public limited company "Swedavia AB", where she carried out the duties of the Head of the Business and property development segment, the retail and airport advertising business segment, and the parking and mobility business segment of the company. Before that, she worked at SAS Scandinavian Airlines for six years, where she was Head of air cargo routes in the eastern market after completing the company's management internship programme.

V. Balode-Andrews graduated from the Stockholm School of Economics, where she earned a master's degree in economics, specialising in economic analysis and control. Later, she also earned a doctorate at the university and a licensed degree in accounting and business administration.



Remuneration of the Management Board members

The remuneration of the Management Board members is determined following the requirements of the Law on the Governance of Capital Shares of a Public Person and Capital Companies and Cabinet Regulation No. 63, Regulations Regarding the Number of Members of the Management Board and the Council of Capital Companies of a Public Person and Public Private Capital Companies, as well as the Maximum Amount of Monthly Remuneration of Members of the Management Board and the Council" of 4 February 2020.

The determination of remuneration of the Members of the Management Board of LDz, its amount, types, granting procedures and other motivation tools are specified in the "Guidelines for remuneration and motivation of the Members of the Management Board of VAS "Latvijas dzelzceļš" approved by the Council". The amount of the monthly remuneration of a LDz Management Board member is determined by a decision of the Council of LDz and the Council may review it once a year – after approval of the annual report, as well as after approval of the performance results, taking into account the amount of the fixed part of the remuneration in the sector by a capital company of appropriate size for the relevant position of the private sector, evaluating the criteria specified in the CSCC guidelines. The bonus may be paid to the member of LDz's Management Board up to the amount of two months' remuneration. The decision on the payment of the bonus is made by the Council, taking into account the performance of LDz in the previous reporting year, the implementation of the medium-term operational strategy, the activities of the Management Board member and the contribution to the achievement of the corporate objectives – in accordance with the results of the achievable performance indicators (KPI) determined for each Management Board member.

The Members of the Management Board of LDz may be granted severance pay totalling a maximum of three months' salary in the cases specified in the Law on the Governance of Capital Shares of a Public Person and Capital Company.

In 2023, the compensation paid to the Members of the Management Board of LDz in totalled EUR 322,463.59, including national social insurance mandatory contributions (in 2022: EUR 421,967).

The assessment of the performance results of the Management Board members is performed in conformity with the guidelines of the Cross-Sectoral Coordination Centre and the procedures laid down in the internal regulations issued by the Ministry of Transport. The individual goals to be achieved by each Management Board member for the next period are determined by a decision of the Council of LDz. In addition, at the end of the assessment period, each Member of the Management Board carries out a self-assessment in accordance with the objectives and competences to be achieved for him or her, which is submitted to the LDz Council for review once a year, after the annual report has been approved.

2-19

Conflicts of interest

The Members of the Management Board and the Council of VAS "Latvijas dzelzceļš" are civil servants. Therefore, issues relating to conflicts of interest and the combination of positions are resolved in accordance with external laws and regulations on the prevention of conflicts of interest in the activities of public officials. The Rules of Procedure of the LDz Council set out the duties regarding compliance with external regulations and the measures to be taken if a conflict of interest or a potential conflict of interest has been identified. The execution of the conflict of interests of LDz public officials and the settlement of issues related to the combination of positions, which are within the competence of the Management Board and the Council of the capital company, is supervised by the appointed representative of the holder of state capital shares.

At the same time, LDz also has internal control mechanisms that serve to prevent risks of conflicts of interest both in the activities of public officials and in the activities of every employee of the Group. In accordance with the Fraud Prevention Policy, the Group maintains and updates a list of positions at risk of corruption.

The Code of Ethics describes the definition of conflict of interest, which applies to all employees of the Group, including public officials. The obligation to comply with the Code of Ethics is reinforced in the internal rules of LDz, where it is determined that employees are obliged to comply with generally accepted ethical norms both in relations with colleagues, customers, visitors, and in contact with state, local government and non-state institutions. Paragraph 8 of the Basic Principles of Business Ethics of the Group's cooperation partners stipulates that the cooperation partner of LDz confirms that its employees will not participate in decision-making while being in a situation of conflict of interest, as well as will not use the influence that may have arisen from such a conflict of interest situation in making a certain decision.

Taking into account the "Guidelines for the Internal Audit of the Internal Control System for the Prevention of Corruption and Conflict of Interest (including Management of Conflict of Interest and Corruption Risks)" developed by the Ministry of Finance, the audit of the assessment of the internal control system for corruption and fraud risks was continued in 2023 and the second part of this audit was carried out. The audit identified opportunities to improve controls that ensure compliance with the requirements of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing.

2-15



Key policies for the implementation of best corporate governance

2-23; 2-24; 2-25; 2-26

Thinking about achieving the long-term goals and growth, VAS "Latvijas dzelzceļš" incorporates aspects of sustainable management into its strategic development plans and daily processes. When planning the directions of corporate social responsibility activities, LDz takes into account the ten basic principles of the United Nations (UN) Global Compact and Corporate Social Responsibility, which encourage respect for human rights, ensuring quality working conditions, preserving the environment and combating corruption. In order to promote the development of corporate governance culture in Latvian capital companies, the Corporate Governance Advisory Council established by the Ministry of Justice of the Republic of Latvia in 2020 has been developed and in conformity with 15.03.2022. Cabinet Regulation No. 175 Latvian capital companies apply the Corporate Governance Code (good corporate governance recommendations for companies in Latvia) in which, taking into account the requirements set for companies in the laws and regulations of the Republic of Latvia and the recommendations of the Organisation for Economic Co-operation and Development (OECD) for corporate governance of companies, 17 principles are defined. The principles laid down in the Code are intended to supplement the procedures laid down in regulatory enactments by providing stable but flexible guidance in the development of the corporate governance model that is most suitable for the company. VAS "Latvijas dzelzceļš" also complies with this Code and the principles included therein, and compliance is described in more detail in the statement of VAS "Latvijas dzelzceļš" on corporate governance in the Group in 2023.

The Council of LDz reviews reports on the performance of significant policies and the results achieved annually. All relevant policies are reviewed at least every three years and are updated to ensure their relevance.

To ensure zero tolerance towards sanctions violations and to promote a culture of compliance with sanctions in the LDz Group, in 2023 the Sanctions Department was established to take over the tasks of the Security Directorate in the area of sanctions. Accordingly, in 2023, the Council approved the sanctions policy of the LDz Group and the security policy of the LDz Group in a new version.

During the reporting year, the Council of LDz familiarised itself with the reports on the implementation of the Group's personnel management and remuneration policy in 2022-2023, as well as with the report on the progress of the risk management process of Latvijas Dzelzceļš Group in 2022.

In order to achieve the Group's strategic goals, based on the principles of sustainability and responsibility in relationships with customers, employees, cooperation partners, society, and the environment, the Corporate Social Responsibility and Sustainability Policy was developed in 2022.

In line with this policy, the Group expresses responsible business practices on a daily basis and implements the policy of social responsibility and sustainability in the following areas:



employees



customers



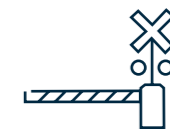
environment



society



business environment



road safety



Corporate Governance Code

The purpose of the Corporate Governance Code is to establish standardised principles according to The purpose of the Corporate Governance Code is to establish uniform principles according to which LDz implements corporate governance, promoting ethical, responsible and transparent corporate governance practices in the Group.

The Corporate Governance Code comprises the corporate values of the Group, information on the organisational structure and corporate governance of the LDz, information on LDz's shareholder and shareholders' meetings, LDz's Council, Management Board, as well as LDz's participation in subsidiaries. The Code contains information on the Group's corporate governance tools, corporate social responsibility, remuneration policy, prevention of conflicts of interest in the activities of the Council and the Management Board members and internal control and risk management. The Code also regulates the disclosure of information, cooperation with affiliated companies and stakeholders as well as a control mechanism to ensure corporate governance.

The Corporate Governance Code was approved in 2021.

Internal audit policy

The internal audit policy defines standardised principles and tasks of internal audit activities, requirements for independence and objectivity of internal audit and ensuring audit quality in the Group.

The policy is implemented by the Internal Audit Unit of LDz, and the supervision of its implementation is carried out by the Council of LDz and the Audit Committee.

The annual internal audit work plan based on the risk assessment is developed by the Internal Audit unit and is approved by the Management Board of LDz, having received prior consent from the Council of LDz and the shareholders' meeting. In accordance with this work plan, the employees of the Internal Audit unit systematically check the operation of the internal control system of LDz, assess its effectiveness and suitability in order to ensure the achievement of the organisation's goals and risk management, including the management of fraud and corruption risks, as well as compliance with the requirements specified in the legislation.

In 2023, employees of the Internal Audit Unit carried out 10 audits, of which 7 audits also examined internal controls of the dependent companies of LDz Group.

Among the most significant audits in the reporting year were audits of public investment projects, which assessed project planning, the progress of related procurements, the management and monitoring of project implementation and project risk management, including the adequacy and effectiveness of existing controls throughout the project implementation process. As a result of these audits, improvements were recommended in the management of public investment projects and in the organisation of the procurement process.

Taking into account the geopolitical situation, an audit was also carried out in the reporting year for IT systems, the manufacturers or maintainers of which are enterprises of the Russian Federation or the Republic of Belarus. As a result of the audit, additional controls were proposed to verify the security of the relevant IT systems and to reduce the risk of intentional or accidental leakage of confidential data.

During the reporting year, audits were also carried out in other areas of LDz activity: personal data protection, environmental and energy management programme, counterparty risk management, business continuity, analysis of PRIME comparative assessment data, fuel trading.

In total, during the reporting year, the Internal Audit unit issued 72 recommendations (62 recommendations in 2022) in relation to 14 high-impact findings (11 in 2022), 27 medium-impact findings (39 in 2022) and 31 low-impact findings (12 in 2022).



Risk policy

The Group's Risk Management Policy defines the basic principles of risk management and elements of the risk management process within the Group, as well as the division of responsibilities between the dominant company of VAS "Latvijas dzelzceļš" and its subsidiaries in compliance with this policy.

The Group's risk management system is administered by the Management Board of LDz and is overseen by the Council.

The implementation of the risk management policy is mainly the responsibility of the LDz risk management process manager, the risk managers of the dependent companies, the risk supervisors, the risk owners or the responsible local managers and the project managers. The risk owners are obliged to inform the risk manager at least once a quarter about the identified risks, the changes in the risk indicators and the defined or planned measures to minimise and control risks.

The risk management policy was approved in 2020.

The audit committee of the Council of VAS "Latvijas dzelzceļš" supervises the internal control and risk management system of LDz, and the risk manager of LDz Group participates in the committee meetings.

The risks identified in the Group companies are registered in the risk registers, assessed using a standardised qualitative assessment method and new or improved existing control measures are planned to prevent or mitigate risks. In order to ensure effective risk management, the Group's risks are divided into risk categories that combine similar or related risks in terms of potential consequences.

Compared to 2022, the overall level of risks in 2023 has not changed and, according to the current risk assessment system in the Group, is assessed as high. The causes of significant risks are external factors, mainly the hostilities in Ukraine and the international economic sanctions imposed against Russia and Belarus.

Types of risks



Security risks, including risks of traffic safety, dangerous goods, infrastructure security, critical infrastructure security, IT security, etc.



Operational risks, including infrastructure maintenance and operation, production process provision and business continuity, rolling stock operation, service provision process, labour protection and other risks



Financial risks, including tax, financial equilibrium, credit risk, liquidity and cash flow risks



Legal risks, including legal, compliance, procurement, corruption and conflict of interest, personal data protection, etc.



Strategic risks, including strategic planning, implementation of investment projects, reputation, planning and implementation of new development directions, etc.



Personnel management and remuneration policy

2-20, 2-21

The personnel management and remuneration policy has been developed with the aim of defining standardised personnel management, development and remuneration, guidelines, policies, basic principles, main responsibilities and areas of activity throughout the Group, and it is approved by the Management Board and the Council of LDz as one of the Group's essential policies.

The main task of personnel management and remuneration policy is to ensure the employment of professional and loyal employees, to promote the motivation of employees to achieve the Group's goals, as well as to promote the involvement of every employee in improving the quality of work performance. At the same time, the policy aims to provide employees with adequate and competitive remuneration for their work and contribution and to promote the development of employees' competences.

In accordance with LDz's Articles of Association, the Management Board is obliged to obtain the approval of the shareholders' meeting for the main terms and conditions developed by the Management Board for determining the remuneration of the company's employees, on which the remuneration system for LDz employees is based. The control, monitoring and updating of the implementation of the policy is carried out by LDz's Human Resources Department, which monitors compliance with the requirements of the policy and the documents developed on its basis in the Group, carries out inspections if necessary and proposes and orders changes for approval.

The personnel management and remuneration policy was approved in 2022.

The highest paid person of LDz in 2023 was the Chairman of the Management Board.

The calculations are based on the data of wages and salaries (and wage dynamics) of 2023 – salaries, bonuses, bonuses, loyalty remuneration – LDz wage and salary fund.

Annual total remuneration indicator

The calculations are based on the data of wages and salaries (and wage dynamics) of 2023 – salaries, bonuses, bonuses, loyalty remuneration – LDz wage and salary fund.

annual total remuneration for the highest paid individual

(average total annual remuneration for all employees of the organisation, excluding the highest paid person)

$$\frac{131039}{18293} = 7,2$$

percentage increase in total annual remuneration for the highest paid person in the organisation

average percentage increase in total annual remuneration of all employees of the organisation except the highest paid person)

$$\frac{9\%}{6\%} = 1,5 \text{ (change in the annual total remuneration increase ratio)}$$



Fraud prevention policy

The aim of the Fraud prevention policy is to establish an internal control environment to ensure fraud prevention, including in the areas of prevention of conflicts of interest and the fight against corruption, as well as to ensure the detection of potential cases of fraud, a certain level of responsibility for the evaluation of control measures and the verification of suspected fraud.

The policy complies with the requirements binding on the Group laid down in the Whistleblowing Law and the Cabinet Regulation Regulations on the Basic Requirements for the Internal Control System for the Prevention of the Risk of Corruption and Conflict of Interest in an Institution of a Public Person.

The Fraud Prevention Director (Security Director) is responsible for monitoring and controlling the Policy in the Group.

The Policy defines the basic principles and requirements for fraud prevention that must be observed by Group companies and their employees.

The Fraud prevention policy was approved in 2022.

Reports received in 2023 and further action

In 2023, 13 reports (16 in 2022) regarding possible fraud cases were received using one of the information channels – email, telephone, social network communication possibilities, mail, orally, including the LDz intranet. Following the information received, inspections were carried out and proposals made to improve the monitoring system, but in two cases the inspections have not yet been finalised. No whistleblower's reports were received in the reporting year (in 2022, one of the reports was registered as a whistleblower's report).

Security policy

The objectives of the Group's Security policy are to implement safety procedures to protect the railway infrastructure and to promote an open business partnership. This Policy also aims to improve staff skills and understanding of security issues, recognise potential risks and threats in a timely manner, develop and implement more effective solutions to mitigate threats and strengthen the ability to respond to potential security incidents – infrastructure, transactions, information protection and personnel – in strict compliance with the standards set out in external and internal legislation and the general principles of law. Supervision and control of the Group's Security policy is ensured by the Director of Security.

The new wording of the Security Policy was approved in 2023.

Road safety policy

The purpose of the Road safety policy is to define the principles of road safety management in the Group and its functions, documents and systems required to implement the policy in order to achieve an excellent level of safety.

The function of monitoring, controlling and providing instructions for compliance with the policy in LDz and Group companies is provided by the Chief Technical Inspector.

The Road safety policy was approved in March 2023.

Information on road safety in 2023 can be found in the chapter "Road Safety" on [page 84](#).

Environmental and energy management policy

The aim of the Environmental and energy management policy is to determine the environmental and energy management principles and tasks of VAS "Latvijas dzelzceļš" and its subsidiaries in order to reduce the negative impact of the economic activity of the Group's companies on the environment.

The LDz Development Department is responsible for maintaining and improving the Group's overall environmental and energy management system, which, if necessary, proposes amendments to the Environmental and energy management policy.

The Environmental and energy management policy was approved in 2021. Information on the Environmental and Energy Management Programme for 2022-2028 and the work done in this field in 2023 is published in the chapter "Environmental impact" on [page 61](#).



Code of Ethics

The Code of Ethics summarises the best business practices and professional ethics and conduct of employees of the Group's dominant companies and dependent companies.

LDz's Code of Ethics covers aspects that are important to the Group, such as occupational safety, road safety, human rights, equal opportunities, professional activity, political activity and mutual respect. In addition, the Code describes the basic principles that the company applies in protecting the environment and utilising natural resources, the principles of fair business dealings, the basic principles of information protection and cooperation with customers, suppliers and the public. The principles contained in the Code of Ethics are observed by all Group employees in the performance of their work and official duties, in their mutual communication and in their relationships with shareholders or members, governmental, municipal and non-governmental institutions, customers, suppliers and other third parties.

Possible violations of the Code of Ethics can be reported, and the received reports are reviewed by the Group's Ethics Committee. No reports of alleged irregularities were received during the reporting year.

The Code of Ethics was approved in 2021.

Sanctions policy

The Sanctions Policy is the key policy of LDz Group, and it was approved in 2023.

The purpose of the Policy is to ensure the fulfilment by the Group of the requirements directly applicable in the Republic of Latvia, laid down in the Law on International Sanctions and National Sanctions of the Republic of Latvia and other laws, and to prevent the possibility of the Group being involved in the violation of the sanctions regime, circumventing sanctions or attempting to circumvent the execution of sanctions.

The aim of the Policy is also to determine the procedures for the implementation of measures for the assessment of sanctions risks and verification of sanctions compliance, and to improve the skills and understanding of the Group's personnel regarding sanctions issues, to identify potential risks in a timely manner, to develop and improve solutions for the reduction of threats related to sanctions risk.

Compliance with laws and regulations

2-27

LDz monitors compliance with the requirements of laws and regulations in its activities. Any new legislation that could affect the interests of LDz is forwarded to the relevant structural unit within the framework of the allocation of responsibilities defined by LDz in order to assess whether changes are required in LDz's internal legislation or otherwise in the company's operations due to the impact of the legislation. All structural units whose operations may be affected and, if applicable, the risk manager are included in the assessment. Once the assessment has been carried out, the requirements of the laws are incorporated into the LDz's internal documents and the control environment.

In 2023, no significant penalties or sanctions have been imposed for non-compliance of the activities of VAS "Latvijas dzelzceļš" with laws. Also in 2022, no significant sanctions and penalties were applied.



05

MATERIAL SUSTAINABILITY TOPICS AND ENGAGEMENT OF STAKEHOLDERS



As one of the leading transport, logistics, and infrastructure companies in Latvia and the Baltic States, LDz works closely with other market players and various business partners.

Engagement of internal and external stakeholders

When developing the GRI sustainability report for 2022, a list of external stakeholders of the company was created, identifying those companies, institutions, and organisations in the private, public and non-governmental sector, the activities of which affect LDz or on which the economic activity of LDz has or could have an impact. In 2023, the list of stakeholders has not changed and is relevant for the activities of LDz.

Having surveyed the company's external and internal stakeholders, VAS "Latvijas dzelzceļš" has identified the key sustainability areas - social, economic and environmental aspects - in 6 steps that meet the requirements of the GRI Standards for identifying material sustainability areas and stakeholder engagement.

First, having analysed the areas of activity of LDz, the current problems in the industry, as well as previous years' sustainability reports and practices in the railway sector, 24 sustainability areas covering the company's potential environmental, social and economic impacts were identified.







These areas were validated and refined in discussions with representatives of the Council and the Management Board of the company as well as the heads of certain functions, as well as the assessment of the internal stakeholders was obtained for the proposed sustainability areas, ranking them in priority order. Employees' opinion on current issues related to the working environment is determined through regular surveys and other feedback tools.

An online questionnaire was created for the surveying of external stakeholders. A total of 32 respondent's answers were received about the sustainability areas of LDz, with the order of priority ranging from most to least important. Respondents had the opportunity to add additional topics in each of the areas as well as give an opinion on LDz's sustainability performance in general. In addition to the questionnaire, individual management representatives of external stakeholders were interviewed to gain a broader picture of their views on the link between LDz's activities and the industry and its policy planning processes, opportunities for improvement and potential for sustainable development.





Key external stakeholders of VAS "Latvijas dzelzceļš"

Stakeholder	Stakeholder organisations whose representatives participated in the interviews	Stakeholder organisations surveyed
 <p>Customers</p>	<p>AS "Pasažieru vilciens" Riga Freeport Authority Ventpils Freeport Authority</p> <p>Liepāja Special Economic Zone Administration</p>	<ul style="list-style-type: none"> AS "Baltijas Ekspresis" AS "Baltijas Tranzīta serviss"
 <p>Counterparties</p>	<p>SIA "Eiropas dzelzceļa līnijas"</p>	<ul style="list-style-type: none"> General company "BERERIX" "Leonhard Weiss" OÜ AS "BMGS" AS "RB Rail" RP SIA "Rīgas satiksme" City Development Department of Riga City Council
 <p>Policy makers, supervisory authorities</p>	<p>Ministry of Transport</p>	<ul style="list-style-type: none"> VSIA "Autotransporta direkcija" State Railway Administration State Railway Technical Inspection
 <p>Non-governmental organisations; Local communities</p>	<p>Foundation "Association of Disabled People and Their Friends "Apeirons"</p>	<ul style="list-style-type: none"> Baltic Institute of Corporate Governance Association "Institute of Corporate Sustainability and Responsibility (InCSR)" Latvian Association of Railway Workers Latvian Cyclists' Union Alliance of Riga Neighborhoods
 <p>Unions</p>	<p>Latvian Trade Union of Railway Workers and Transport Sector</p>	
 <p>Other</p>		<ul style="list-style-type: none"> Financial institutions Educational institutions The media Municipalities International railway institutions



FOREWORD

ABOUT THE REPORT

ABOUT LDZ

CORPORATE GOVERNANCE

KEY AREAS OF SUSTAINABILITY AND STAKEHOLDER ENGAGEMENT

ENVIRONMENTAL IMPACT

SOCIAL IMPACT

ECONOMIC IMPACT

INDEPENDENT AUDITOR'S ASSURANCE REPORT

Key stakeholders – associations and organizations, a member of which LDz is

Organisations operating in Latvia:

Latvian Association of Railway workers

Latvian section of the European Association of Railway Workers (A.E.C.)

Latvian Trade Union of Railway Workers and Transport Sector (LTURWTS)

Baltic Institute of Corporate Governance (BICG)

Employers' Confederation of Latvia
Institute for Corporate Sustainability and Responsibility

Latvian Chamber of Commerce and Industry

International organizations

The International Rail Transport Committee (CIT)

Community of European Rail Infrastructure Managers (CER – The International Rail Transport Committee)

International Union of Railways – (UIC – The International Union of Railways)

COLPOFER – The association of railway security managers and railway/transport police forces

Commonwealth Member States' Rail Transport Council (CSŽT – Совет по железнодорожному транспорту государств – участников Содружества)

Organization of railway cooperation (OSŽD – Организация сотрудничества железных дорог)

Coordination Trans-Siberian Transport Council (KSTP – Международный Координационный совет по трансевразийским перевозкам)

PRIME – Platform of Rail Infrastructure Managers in Europe)

RFC8 – North Sea – Baltic Rail Freight Corridor (NSB RFC)

RailNetEurope (RNE)





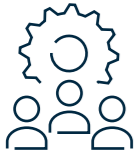
External stakeholders and important topics of LDz



Satiksmes ministrija

Shareholder – Ministry of Transport

- Development of the railway sector and its role in passenger and freight mobility
- Green Deal
- LDz strategy, governance, financial and operational performance
- Contribution to the economy
- Compliance of activities with laws and regulations



Employees, trade unions

- Collective bargaining agreement
- Engagement of employees in the development of the company
- Well-being and social protection of employees, rights, development, motivation
- Occupational safety and health.



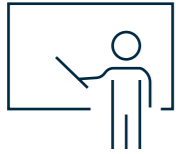
Supervising authorities and policymakers

- Compliance of activities with the requirements of Latvian and EU legislation and fair competition
- Development of the rail sector and its role in passenger and freight mobility
- Security of critical infrastructure
- Data security



Customers

- Efficiency and quality of infrastructure and services – accessibility of infrastructure, train speed, safety, passenger notification, etc.
- Cooperation in planning infrastructure development and improving efficiency
- Access to information



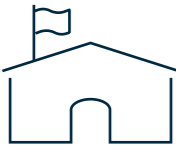
Educational institutions

- Involvement in the development of educational programmes that meet the requirements of the labour market
- Involvement of LDz's experts in educational programmes
- Lectures on safety for students of schools and preschool educational institutions



Counterparties

- Clear and transparent procurement, fair competition and compliance with the law
- Involvement of LDz in the planning and implementation of significant transport projects



Municipalities

- Cooperation in promoting the mobility of citizens - the creation of parking lots, bicycle stands, etc. in municipalities where railway stations are located
- Availability of information on planned infrastructure development



Media

- Availability of information about LDz, main activity, management and current events
- Involvement in updating the problem related to railway safety



Non-governmental organisations and local communities

- Involvement and consultations of organizations and representatives of local communities on the development of significant infrastructure projects of LDz and their impact on the interests of local communities
- Noise level and other environmental aspects
- Availability of information on planned infrastructure development
- Consultations on the accessibility of the environment and its improvement
- Organisation of information campaigns to reduce the number of victims and fatalities in railway accidents



Financial institutions

- LDz's financial performance, significant events, compliance with legislation and compliance with the terms of contracts



International Railway Organizations

- Representation of interests of the Latvian railway sector in EU policy-making
- Information on key developments, documentation and draft legislation - anticipating legal and technical changes on time

With each of the external stakeholders, the company communicates and cooperates in a certain way, being aware of its impact on the company's activities in the short and long term and striving also to find an acceptable solution to all parties in problematic cases. Constantly assessing the social, environmental or economic impact of their activities, external stakeholders are involved in solving important issues that take place at different levels and formats. In accordance with the questionnaire of external and internal stakeholders and the results of interviews, in 2022 the vision of all parties on the most important sustainability areas of LDz was compiled, which is described in more detail in the chapter "Material sustainability topics" on [page 60](#). In view of the fact that the LDz will be bound by the Corporate Sustainability Reporting Directive and the associated requirements of the European Sustainability Reporting Standards (ESRS) from 2025, the LDz began preparations for the implementation of the directive's requirements in the Group in 2023. LDz's sustainability areas defined in accordance with the GRI standards have already been reviewed, compared with the sustainability areas defined in the ESRS standards and the Sustainability Committee has approved the most important sustainability areas for further work.



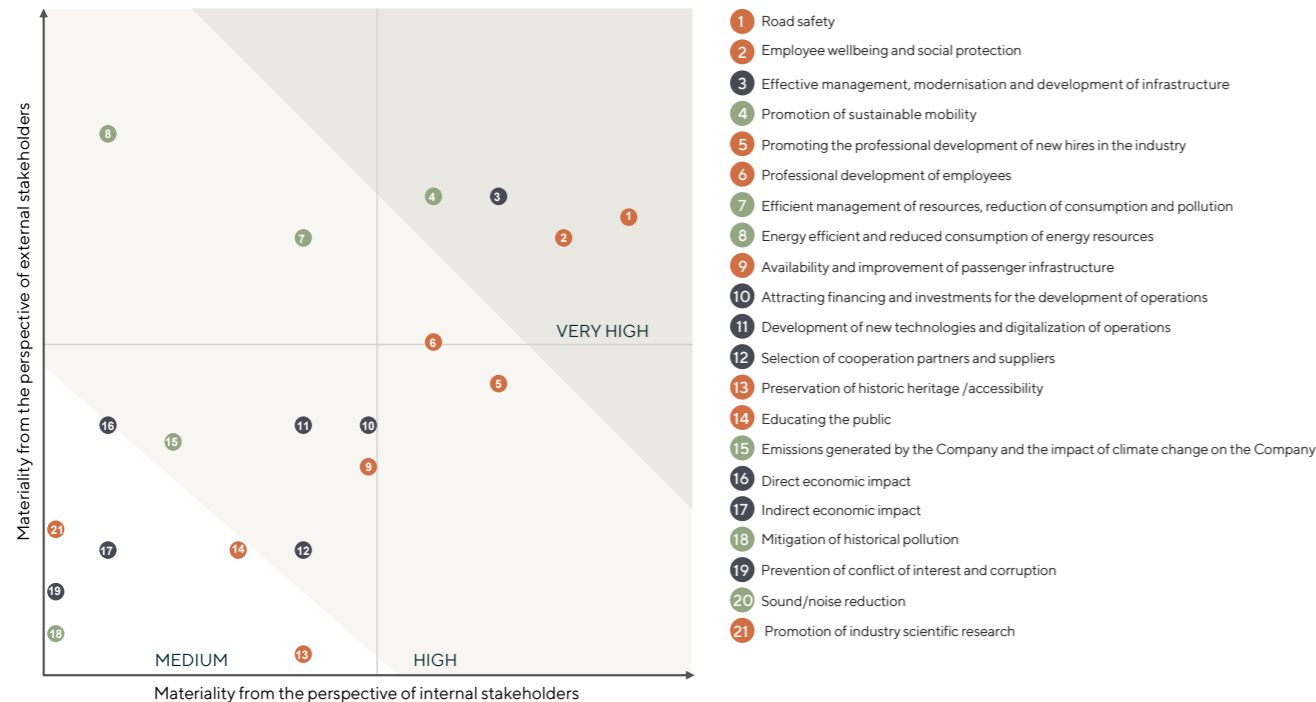
Material sustainability topics

3-1; 3-2

The view of internal and external stakeholders regarding the most important areas of sustainability of LDz was determined based on the results of the stakeholder surveys and interviews.

As a result of the process, a matrix of material sustainability topics was created. The structure of the content of the Sustainability Report was determined in accordance with the matrix, based on the requirements of the GRI Standards for 2021 and best practices in the publication of information.

Both external and internal stakeholders consider road safety, well-being and social protection of employees, modernisation and development of infrastructure, as well as promotion of sustainable mobility as the material sustainability topics at LDz.



The Sustainability Report includes a total of 16 very material, material and some medium-material topics. Under this GRI standard, all 16 topics have been identified with appropriate GRI indicators or the company-defined material topics marked with the LDZ-x indicator.

LDz reports fully on two areas of social impact whose materiality was rated as average - the preservation of historical heritage and the education of the public. This is due to the fact that the LDz has established the Museum of Latvian Railway History and ensures its operation, while public education is important as part of the LDz's Medium-Term Operational Strategy for 2021-2025. The LDz regularly conducts educational campaigns on safety in the railway environment and other important topics related to other key impact areas - transport safety and efficient management of infrastructure, modernisation and development, among others.

Areas of environmental impact:

- Promotion of sustainable mobility
- Efficient management of resources, reduction of consumption and pollution
- Energy efficient and reduced consumption of energy resources
- Emissions generated by the Company and the impact of climate change on the Company
- Mitigation of historical pollution
- Sound/noise reduction

Areas of economic impact:

- Effective management, modernisation and development of infrastructure
- Attracting financing and investments for the development of operations
- Development of new technologies and digitalization of operations
- Selection of cooperation partners and suppliers

Areas of social impact:

- Direct economic impact
- Indirect economic impact
- Prevention of conflict of interest and corruption

Areas of social impact:

- Road safety
- Employee wellbeing and social protection
- Promoting the professional development of new hires in the industry
- Professional development of employees
- Availability and improvement of passenger infrastructure
- Preservation of historic heritage / accessibility
- Educating the public
- Promotion of industry scientific research

06

ENVIRONMENTAL IMPACT





Promoting sustainable mobility

LDz-1

The documents defining and developing the transport sector policy of Latvia and the European Union and its main objectives define railway as the backbone of public transport, ensuring an integrated and sustainable transport system that promotes passenger and freight mobility throughout the EU, including in the territory of Latvia.

In order to successfully achieve this status, VAS "Latvijas dzelzceļš" has developed a concept for infrastructure development, defined priorities for infrastructure development until 2035 and implemented a number of infrastructure development projects, which are described in more detail on [page 28](#) and aim to improve customer comfort and accessibility of the railway for all groups of society, increase the speed of train traffic, increase the safety level of the railway, reduce the environmental damage it causes, etc.

The railway as a means of transport is becoming increasingly popular and until the COVID-19 pandemic, almost 20 million passengers were transported annually via the Latvian railway infrastructure.

After the decline in passenger numbers in 2020 and 2021, a positive trend in passenger traffic was observed in 2023, as well as in 2022 – passenger numbers gradually returned and began to approach pre-pandemic levels.

A total of 17.134 million passengers travelled by rail in the reporting year, 9.2% more than in 2022, when 15.7 million passengers travelled by rail.

Based on these trends, the attention given to rail passenger transport at political, public, state and municipal levels, the ever-increasing demand for multimodal transport solutions and the development of passenger transport in most countries of the European Union, a further increase in the number of passengers and the share of passenger transportation in the use of railway infrastructure in Latvia is predicted.

Cooperating with stakeholders to promote mobility

LDz-1

VAS "Latvijas dzelzceļš" actively cooperates with municipalities in the territories of which passenger railway stations or stopping points are located. In order to make it as convenient as possible for people to use the train service in their daily routine, LDz together with local governments is looking for solutions for the creation of mobility points in the vicinity of railway stations and stops – by installing bicycle stands, parking lots, adjusting the arrival and departure times of other types of public transport to the train schedule, so that residents can easily get to the station and measure the further path on the train. In cooperation with the passenger carrier AS "Pasažieru vilciens" in recent years, express trains have been established on certain routes.

In future projects to modernise passenger transport lines, we will continue to work with VSIA "Autotransporta direkcija", the passenger transport company AS "Pasažieru vilciens" and local governments to assess the functional capacity utilisation and location of existing stations and stops as well as the potential need for new stations and stops.

VAS "Latvijas dzelzceļš", as the only railway infrastructure manager in Latvia, is actively working to ensure that the railway infrastructure intended for passengers is accessible to everyone. To ensure this, a long-term cooperation partner and consultant of LDz is the foundation Association of Disabled People and Their Friends "Apeironi".

Customer satisfaction

VAS "Latvijas dzelzceļš" regularly measures the opinion of residents on the quality of infrastructure to ensure that the development of railway infrastructure is going in the direction desired by its users. This measurement is carried out through an annual opinion survey.

Average train speed in passenger traffic in 2023



electric train segment

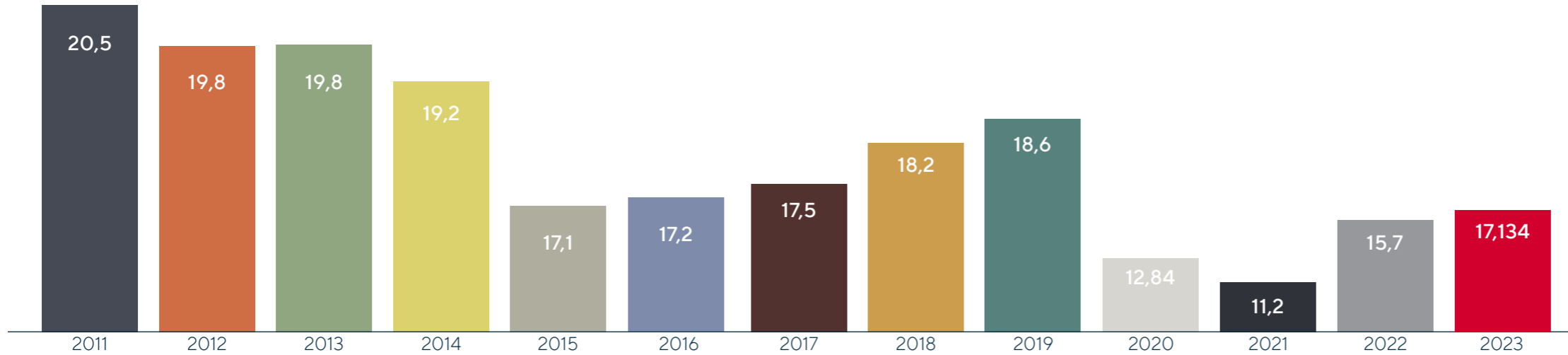


diesel train segment





Passenger transport services(million person)



Results of the study conducted by AS "Pasažieru vilciens" in June-August 2023

compared to the data of the study of VAS "Latvijas dzelzceļš" in January 2022



72% in 2023

70% in 2022

respondents are fully or rather satisfied with the appearance, cleanliness, technical condition, equipment of station buildings



66% in 2023

62% in 2022

respondents are satisfied with safety in stations and their territory



60% in 2023

60% in 2022

are fully or rather satisfied with the appearance, cleanliness, technical condition, equipment of passenger platforms/stops



52% in 2023

42% in 2022

satisfied with the availability of shopping, catering and other services at stations



34% in 2023

53% in 2022

satisfied with the availability of amenities at stations



Resource efficiency, reduction of consumption and pollution

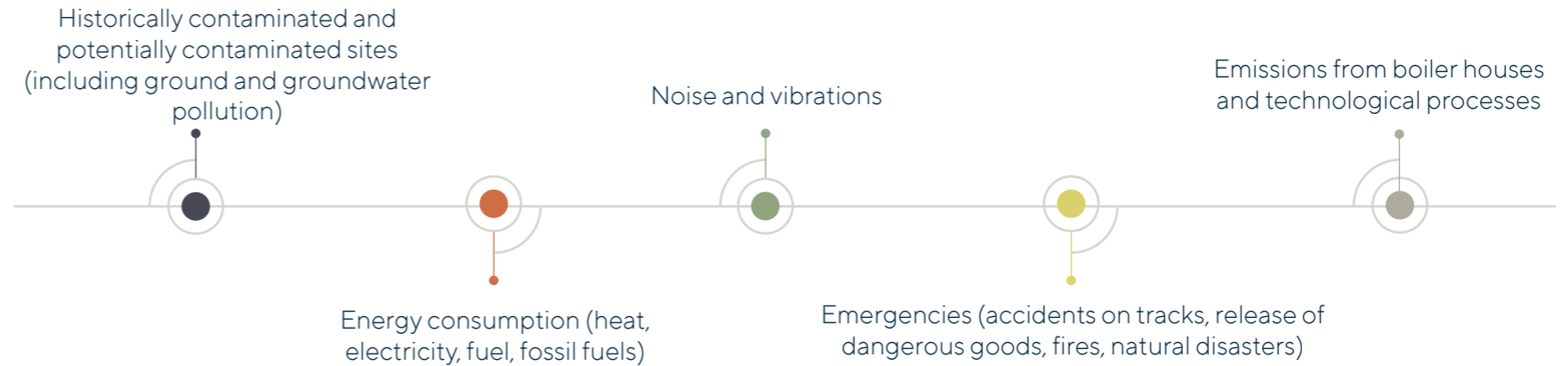
3-3

In order to ensure efficient and sustainable environmental protection and management of energy resources, the Group approved the Environmental and energy management policy in 2021. More detailed information on which is available on [page 52](#).

LDz has an integrated implemented, certified environmental and energy management system. In February 2023, SIA "LRTDEA" - TUV Rheinland group performed an environmental management system monitoring and energy management system recertification audit in accordance with the requirements of ISO 14001:2015 and ISO 50001:2018 standards. LDz's environmental and energy management system was recognised as conforming to the requirements of the standards and no non-conformities were detected.

On August 7, 2023, a report on the implementation of the Environment and Energy Management Programme of VAS "Latvijas dzelzceļš" for 2022-2028 in 2022 was approved. The report includes information on significant environmental aspects, implementation of the measures included in the programme and results achieved in 2022.

According to the assessment carried out for 2022, as a result of the company's activities, five significant environmental aspects have been identified:



For each of these environmental aspects, the most important requirements of the legislation were identified, a description of the situation was provided and further measures were defined or tasks were defined for the period from 2022 to 2028. Key areas of energy consumption have remained unchanged - consumption of electricity, heat and diesel fuel. As part of the energy management system, performance indicators for energy management were defined for key areas of energy consumption, which are analysed annually and revised if necessary.



Materials

301-1; 301-2

To ensure that the railway infrastructure is safe and of high quality, various materials are used in its maintenance and construction – sand and gravel, ballast, wooden and reinforced concrete sleepers and others. The amount of these materials varies from year to year and depends on the extent of the planned and carried out repairs.

Recycled materials have not been used to ensure the operating activity.

VAS "Latvijas Dzelzceļš" has incorporated reused materials into its main activities:

	2023	2022	Type of resource
 Reinforced concrete sleepers, used (pcs.)	13 148	19 383	Non-renewable material
 Wooden sleepers and beams, used (pcs.)	883	556	Renewable material



Recycled materials have not been used to ensure the operating activity.

Use of water resources

303-5










For the daily needs of VAS "Latvijas dzelzceļš" and the performance of economic activity, one of the resources consumed is water, which is extracted both from centralised water supply systems provided by various merchants, as well as from water extraction wells owned by the company.

As water is one of the natural resources that cannot recover as quickly as it is consumed, the economical use of water resources is one of the basic prerequisites for environmentally friendly management, and LDz also endeavours to operate as sustainably as possible.

	75 808 m³	76 415 m ³
the volume of water extracted and used	in 2023	in 2022
<hr/>		
	86 541 m³	88 163 m ³
the amount of wastewater generated and treated	in 2023	in 2022

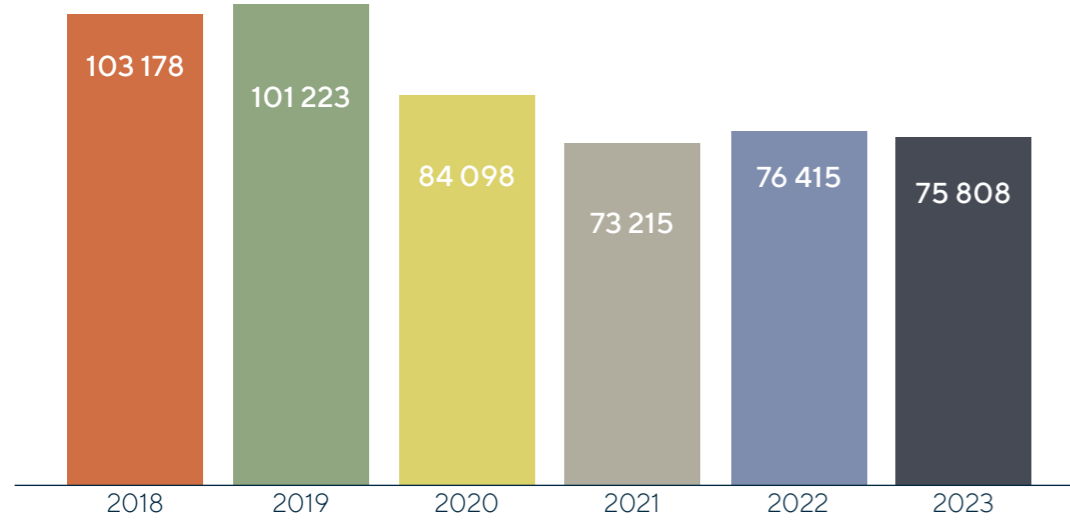


Materials consumed for infrastructure construction and repair works in 2023 and their volume

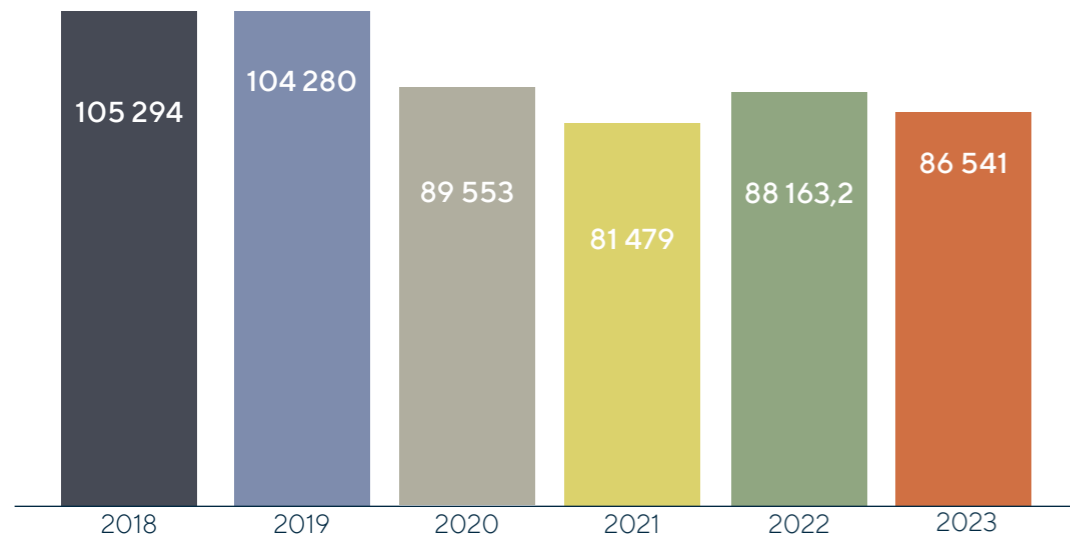
Materials	Year 2023	Year 2022	Unit of measurement	Type of resource
 Sand	7 439	2 709	tonnes	Non-renewable material
 Gravel (dolomite crushed stone)	312	409	tonnes	Non-renewable material
 Granite rubble	36 812	26 015	tonnes	Non-renewable material
 Impregnated oak sleepers	1 048	818	pcs.	Renewable material
 Impregnated coniferous sleepers	2 284	2 254	pcs.	Renewable material
 Switches oak beams	1 475	1 701	pcs.	Renewable material
 Switches coniferous beams	3 160	3 068	pcs.	Renewable material
 Bridge beams (wooden)	226	413	pcs.	Renewable material
 Reinforced concrete sleepers	10 671	1 516	gab.	Non-renewable material



Dynamics of the amount of water extracted and consumed over the years:



Amount of generated and treated wastewater (m³)



Waste

306-3

Just as almost every economic activity is associated with the generation of various wastes, the railway sector is no exception in this respect. As a result of the economic activity of the LDz, various types of waste are generated, including hazardous and recyclable waste.

The monthly payment invoices of the waste disposal companies contain information on the quantity of municipal waste delivered (m³). Information on the amount of hazardous waste in tonnes was also obtained from the waste disposal companies to whom hazardous waste was handed over for further appropriate disposal.

In 2023, a total of ~ 9,938 m³ of municipal waste has been handed over for recycling (in 2022 - 10,487 m³) and in the field of waste management LDz in the reporting year has cooperated with 29 companies and a total of EUR 218,189 has been paid for waste management (in 2022: EUR 198,707).

Hazardous waste handed over for recycling by LDz

	construction waste, unsorted waste	11,6 tonnes in 2023	5,6 tonnes in 2022
	tire disposal	0 tonnes in 2023	1,9 tonnes in 2022
	batteries	0 tonnes in 2023	0,035 tonnes in 2022
	appliances	0 tonnes in 2023	0,185 tonnes in 2022
	metals (household appliances)	0 tonnes in 2023	0,066 tonnes in 2022



Energy efficient and reduced energy resource consumption

3-3; 302-1

Measures to improve the energy efficiency of buildings are set out in the VAS "Latvijas dzelzceļš" property development and management programme" for the period up to 2030. The programme sets targets to reduce the specific consumption of electricity and heat in real estate, increase the energy efficiency of real estate and reduce the consumption of electricity and water in the operation and facility management of real estate.

When preparing the plan of energy efficiency measures, the theoretically possible benefit is determined, for what amount of MWh LDz could potentially reduce heat or electricity consumption in facilities. After the implementation of the decided activities actual measurements of energy and electricity consumption and their analysis is made. Taking into account the fact that heat energy consumption is especially affected by several factors, including the external air temperature, in 2024. It is planned to introduce a data normalization solution by applying climatic correction to actual consumption data. That will make it possible to determine more precisely the benefits of energy efficiency after the implementation of the approved measures.

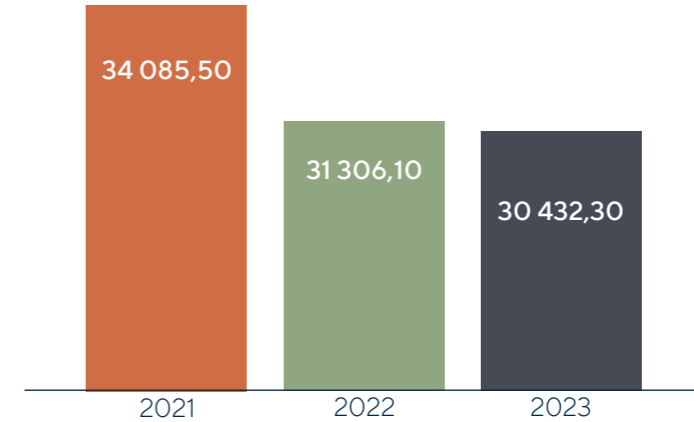
The total consumption of energy resources for ensuring the economic activity of LDz - production processes, heating of buildings and for lighting, road transport - in **2023 was 84,146.12 MWh** (in 2022: 85,399.6 MWh), including: electricity (purchased), thermal energy (purchased), gasoline, diesel fuel, fuel for stoves, natural gas, liquefied petroleum gas, coal, firewood and wood pellets. Compared to 2022 the total consumption of energy resources has decreased by 1,253.48 MWh, i.e. 1.5%.

Electricity

Electricity is a critically needed resource for ensuring the operating activity of VAS "Latvijas dzelzceļš" - LDz uses electricity on daily basis for various production processes and maintenance of railway infrastructure, as well as for indoor and outdoor lighting and for the operation of office appliances. One of the tasks set out in the LDz Environment and Energy Management Programme is the reduction of electricity consumption in railway infrastructure management, as well as in the operation and management of real estate.

In 2023, electricity consumption for heating of the switches has increased, which can be explained by weather conditions. During the reporting year, there were several periods in which the air temperature was below normal, as well as there were significant changes in weather conditions. The longest period, when the temperature was below normal, was from mid-November to mid-December.

Electricity consumption in MWh/year



Electricity consumption for maintenance of LDz infrastructure

	2023	2022	2021
Electricity consumption for heating of the switches (MWh/year)	1 698,7 (+10,5%)	1 538 (-31,6%)	2 247,8
Electricity consumption for external lighting (MWh/year)	2 603 (-16,8%)	3 128,9 (-8,08%)	3 128,9
Electricity consumption for the operation of SCB and communication equipment (MWh/year)	11 441,8 (-1,5%)	11 618,6 (-2,3%)	11 891

*SCB - alarm, centralization, blocking

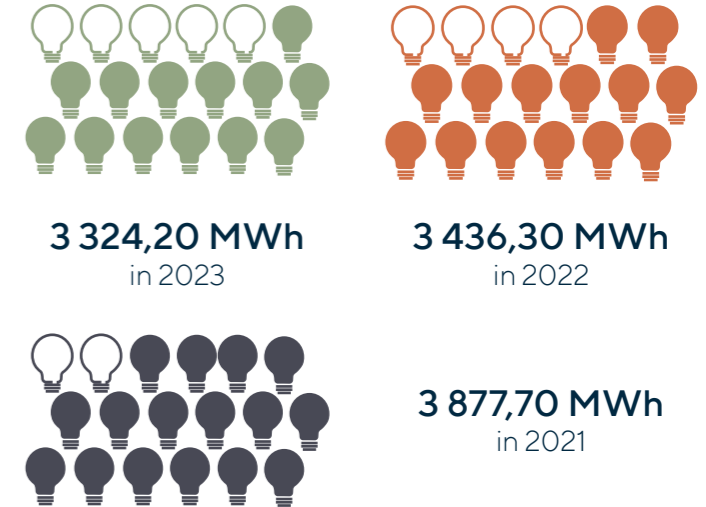





Conversely, the sharpest changes in air temperature occurred at the beginning of the year – from +5.4°C on January 1, the average temperature dropped to -13.2°C on January 6, but then rose again to +4.3°C on January 14. As a result, it was necessary to adapt the heating of the switches to ensure safe movement of trains regardless of weather conditions.

Electricity consumption for outdoor lighting has fallen by 16.8% as platform and car park lighting has been switched off in stations where there is no passenger traffic. It should also be noted that exterior lighting is switched on and off as required – when work is being carried out on the tracks. Several facilities have automatic switching on and off of the lighting (twilight sensors). The use of LED lights in outdoor lighting has also been increased to reduce power consumption and make lighting more energy efficient.

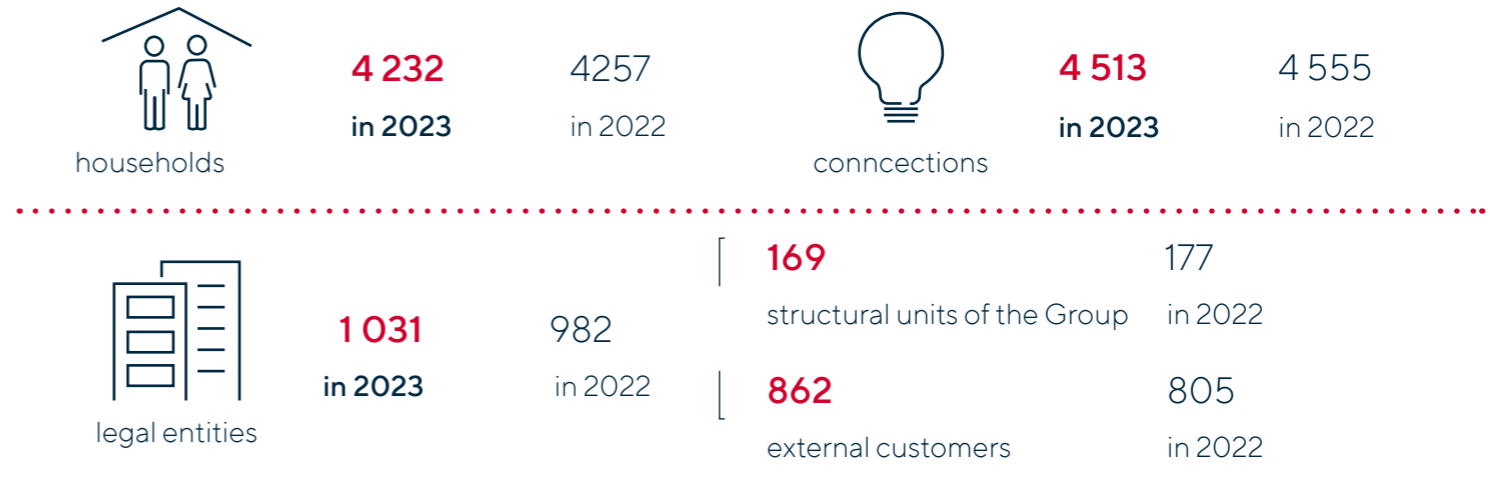
In 2023, electricity consumption for the operation of SCB and communication equipment has also slightly fallen. This is due to the amount of infrastructure maintenance work carried out. VAS "Latvijas dzelzceļš" as a provider of public utilities provides electricity distribution services as a system operator and trade services as an electricity trader. In 2023, the volume of electricity trade in all segments has decreased, which is related to both the decrease in the number of connections and the fact that customers have exercised their right to purchase electricity from any trader at the most advantageous price in the conditions of the open market of electricity, concurrently using the LDz electricity distribution service.

Electricity losses MWh/year



Volume (trade) of electricity sold in 2023 to legal and natural persons:		in 2022
	Legal consumers (including LDZ subsidiaries)	7 519 MWh / 10 898 MWh
	Household consumers	5 111 MWh / 5 996 MWh
	Total	12 630 MWh / 16 894 MWh

LDZ electricity connections





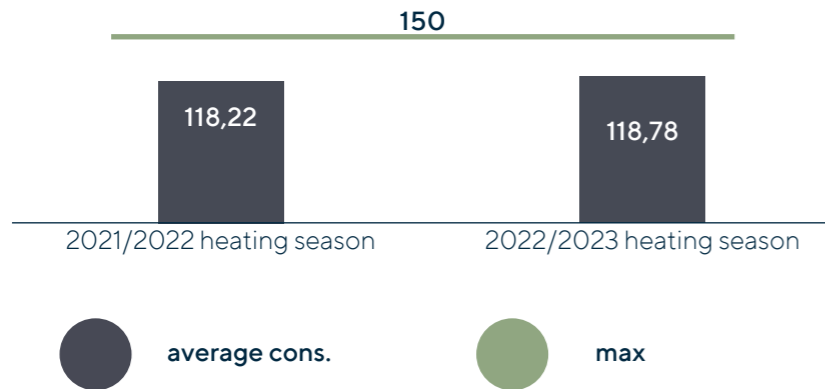
Thermal energy

Reduction of thermal energy consumption is one of the achievable goals set by VAS "Latvijas dzelzceļš" in the field of energy efficiency. Insulating buildings owned by LDz is one of the most effective ways of saving heat and electricity while improving the quality and sustainability of buildings.

According to LDz's Real Estate Development and Management Programme 2021 - 2030, the specific consumption of thermal energy must be less than 150 kWh/m² per year. In the 2022/2023 heating season of LDz, consumption was 118.78 kWh/m², thus the target specified in the programme has been fulfilled.

During the heating season of 2022/2023 (from 1 October to 30 April), the specific heat consumption of LDz has increased on average by 0.56 kWh/m² (+0.47%) compared to the heating season of 2021/2022, which is assessed as a negligible increase.

Average thermal energy consumption in kWh/m²



In LDz district heating objects, heat consumption is determined according to the readings of heat meters. Data are also transferred to service providers who issue invoices according to the specified amount of consumed thermal energy at LDz facilities (MWh).

In turn, the amount of thermal energy produced in boiler houses is determined by the meter readings, but in objects where heat meters are not installed, the amount of MWh produced is calculated according to the amount of fuel consumed.



the amount of thermal energy received (purchased)

15 235,6 MWh
in 2023

17 050,9 MWh
in 2022



thermal energy generated

10 834,4 MWh
in 2023

9 577,8 MWh
in 2022



thermal energy sold


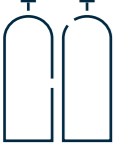


10 765,3 MWh
in 2023

10 407,5 MWh
in 2022

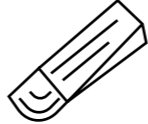





In 2023, three boiler houses were installed in the VAS "Latvijas dzelzceļš" facilities, in which wood pellets are used as fuel, and one boiler house, in which electric boilers are used to generate thermal energy. The installation of the new boiler houses made it possible to abandon the diesel boiler house, as well as district heating in three facilities where there were significant heat losses in external heating networks. In 2023, with the resumption of coal supply, wood briquettes were no longer used for heating. They were used as a reserve fuel in coal-fired boiler houses.

Consumption of non-renewable fuel resources in 2023

	coal	204,858 MWh in 2023	376,2 MWh in 2022
	natural gas	2814,078 MWh in 2023	2361 MWh in 2022
	fuel for household stoves	573,269 MWh in 2023	711,9 MWh in 2022
	liquefied petroleum gas (LPG)	2 685 MWh in 2023	5 306,5 MWh in 2022

Consumption of renewable and semi-renewable fuel resources in 2023

	firewood	529,587 MWh in 2023	506,0 MWh in 2022
	wood pellets	2731,277 MWh in 2023	2101,3 MWh in 2022
	wood briquettes	0 MWh in 2023	1,3 MWh in 2022
	electricity	1295,800 MWh in 2023	0 MWh in 2022



Fuel

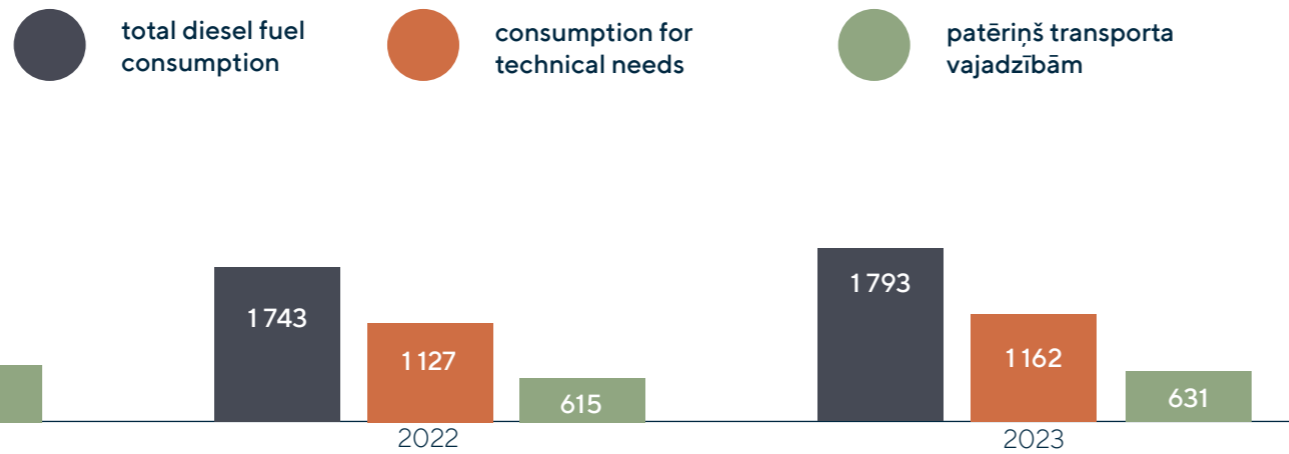
Fuel is used for the maintenance of the railway infrastructure and for the performance of various tasks related to the provision of the companies' functions, with total consumption being recognised for technical and transport needs.

In the reporting year, the total fuel consumption increased slightly – it was 50,000 litres or 2.87% more than in 2022.

During this period, fuel consumption has increased, both for technological needs and for transport needs. The volume of diesel fuel consumption depends on the amount of railway infrastructure management and maintenance work.

LDz has implemented and maintains GPS control, route planning and fleet switching to newer vehicles that are more fuel efficient. In 2023, 109 113 fewer kilometres were travelled compared to 2022, at the same time fuel consumption increased in the reporting year. Such a ratio can arise, for example, when working with tractor equipment on site, when fuel is consumed but few kilometres are driven. It should be noted that the petrol-powered LDz track maintenance machines were involved in the implementation of infrastructure development projects in Latvia and outsourced to Lithuanian colleagues more in 2023 than in the previous period, which also increased fuel consumption.

Use of diesel fuel (thousand litres)



*For the purposes of calculating the total energy consumption, diesel fuel consumption is recalculated in megawatt hours (MWh), using the formulas provided in the Methodological Instructions for reporting and calculation of energy savings developed by the State Construction Control Bureau in 2022.



Emissions generated

In preparation for the implementation of the Corporate Sustainability Reporting Directive and the associated requirements of the European Sustainability Reporting Standards (ESRS), LDz concluded a contract with a consultant in 2023 to calculate greenhouse gas (GHG) emissions in accordance with the methodology of the GHG Emissions Protocol. The work involved in calculating the emissions for 2022 proved to be more time-consuming, as the data on the LDz's thermal energy and electricity consumption is fragmented and it is not possible to include the emissions calculations in the Sustainability Report for 2023 in the form envisaged by the GRI Standards. Once the current data for 2023 has been received, the calculation of emissions for 2023 will begin, which will be carried out with the help of consultants.

The following sources are considered to be the main sources of LDz greenhouse gas emissions according to the categorisation of the GHG Emission Protocol:

- Scope 1 or direct emissions; emissions that are caused during the operation of vehicles and equipment owned by LDz (they are currently mainly caused by the technological and service road transport of internal combustion engines, as well as by the track construction units under the direction of the LDz, which are mainly used for the maintenance of tracks and related infrastructure, as well as small hand tools);
- emissions when burning fuel in LDz boiler houses (using natural gas, diesel fuel, liquefied petroleum gas, wood pellets and firewood and electric boilers as fuel). Emissions of electric boilers due to the electricity used are included in scope 2;
- emissions, using refrigerants in air conditioning equipment (in total, 1195 air conditioning units have been installed to ensure the economic activity of LDz, but their number is reviewed every year).

Direct greenhouse gas emissions are currently only calculated by LDz for boiler houses for which a category B or C permit for polluting activities has been issued by the National Environmental Service (VVD). For boiler houses, emissions are calculated as part of the tax on natural resources. For boiler houses that correspond to category C, the natural resources tax calculator developed by the VVD is used. In turn, individually developed projects for limiting emissions from stationary sources of pollution, which are developed by entrepreneurs at the request of the LDz, are used to calculate emissions from boiler houses that correspond to category B. All factors and formulas are included in these emission limit projects so that LDz can calculate the emissions independently.

- Scope 2 - electricity purchased by LDz on the electricity market and thermal energy purchased from district heating networks;
- Scope 3 - indirect emissions that the LDz plans to estimate in 2024, but a significant proportion of these are prima facie formed by passenger and freight transport operators in the LDz infrastructure. In previous years, at the request of international railway organisations, emissions from diesel locomotives were only calculated for freight transport, but for 2024 it is planned to also estimate emissions caused by passenger transport and other amounts of Scope 3 emissions, including purchased services and goods, waste disposal, employee business travel, assets leased by the LDz, etc. Scope 3 activities related to the construction of infrastructure provided by external suppliers are also likely to account for a significant proportion of emissions, but an accurate estimate of these emissions will require additional time.



Impacts of climate change

Climate change and the extreme weather conditions associated with it can also have a significant impact on the railway sector – in recent years, the air temperature on the territory of Latvia has also often reached extreme heat, which can affect railway infrastructure and the safety of train traffic. When the air temperature is above +30 degrees Celsius for long periods of time, the rails in open areas can heat up to 50 degrees or more.

In Latvia, the air temperature amplitude is very wide: from -30 to +30 degrees and even more. When laying and fixing railway tracks, this is taken into account, but the rails have their own physical and chemical properties. Namely, in the cold, the rails shrink, and in the heat – expand.

When creating railway infrastructures, temperature fluctuations and their effects on the rails are taken into account – to prevent too large a gap from forming between them at crossings in winter conditions. If, on the other hand, the rails are too close together, internal overloading can occur in summer at high temperatures, causing what is known as a broken track – a bending or deformation which, in the worst case, can even lead to a road accident with a derailed train.

To avoid such emergency situations, the dynamic load or the direct impact of the rolling stock on the track during the journey is reduced. It can be reduced by reducing the speed, because then the effect on the track is gentler, without a sharp change in dynamic load – and therefore with less likelihood of critical loading from heated rails. Therefore, in extremely hot weather, the speed of trains can be reduced on certain sections.

In recent years, natural phenomena such as storms have also been observed with increasing frequency in Latvia. Strong gusts of wind can affect the accuracy of train services – branches blown onto the tracks, various objects, etc., trees falling onto the power grids – have a significant impact on the railway infrastructure. In addition, railway operations in winter are affected by unstable weather conditions – strong temperature fluctuations, snowfall can disrupt the operation of signals, traffic lights, switches and other equipment, which can hinder train traffic.

At the beginning of August 2023, a storm raged across a large area of Latvia, causing significant damage to the railway infrastructure and disrupting train services. LDz employees removed the trees blown down by the wind from the rails and power grids and restored the operation of the electrical installations in order to eliminate the consequences of the storm as quickly as possible and enable train services to resume. Due to the gale, several kilometres of power lines were also interrupted and damaged, and considerable human resources were deployed to eliminate these disruptions as quickly as possible.

07

SOCIAL
IMPACT





Employees' well-being and social protection

3-3

Employee turnover

401-1

The Personnel management and remuneration policy of Latvijas Dzelzceļš Group, which is described in more detail on [page 51](#), stipulates that employees are the most important strategic asset of LDz, which creates and develops the company's values and ensures its competitiveness in the service market. Personnel management processes in LDz are organised and managed in such a way as to maintain and develop the company's values – growth, safety and synergy – and they are understood and respected by all employees.

VAS "Latvijas dzelzceļš" and all companies in the Group behave fairly and in a regulatory manner towards their employees, create a safe and healthy working environment and ensure the physical and social well-being of employees. LDz is a responsible employer that offers its employees social guarantees that strengthen their sense of job stability and social protection. LDz's personnel management and remuneration policy defines the objectives to be achieved in this area. These include ensuring that employees receive appropriate and competitive remuneration for their work and contribution, promoting the development of important competences and thus improving work efficiency and productivity in the long term.

The number of employees who have terminated their employment, including retired employees



275

the employment relationship was terminated



37

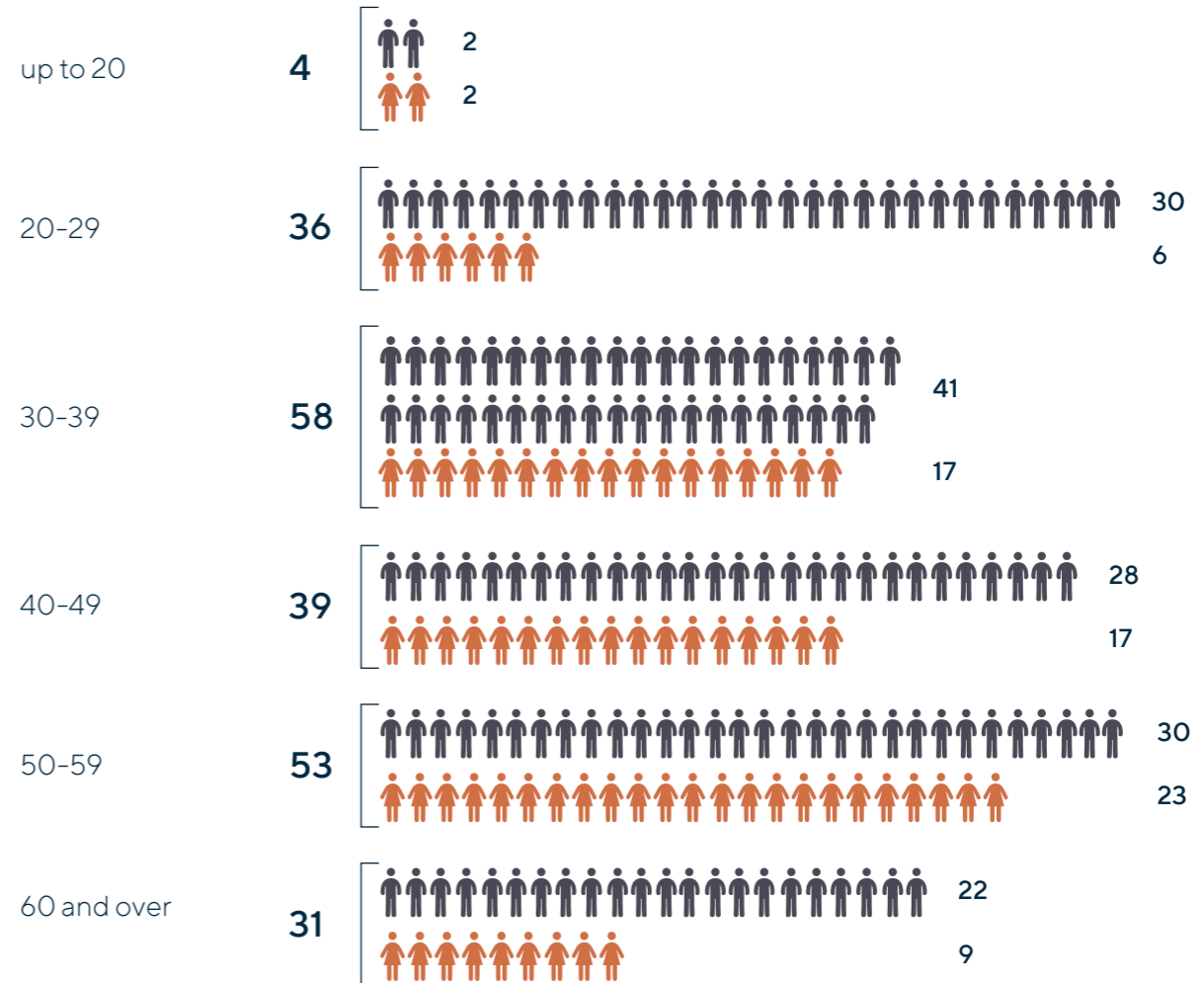
retired employees



53

staff positions reduced as a result of optimization

New employees in 2023 (breakdown by age)





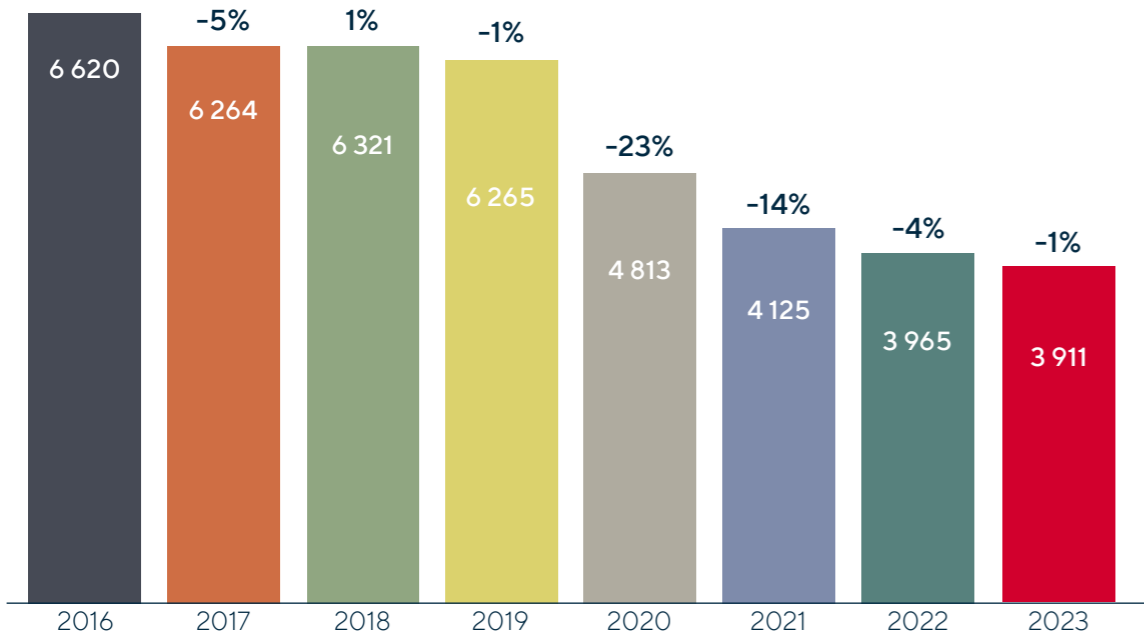
Employees laid off (breakdown by age)



Total employee turnover in 2023: $257/3945 = 6,5\%$
 Total employee turnover in 2022: $308/4037 = 7,6\%$



Changes in the headcount of employees by year (on 31 December of each year)



Social safety

In addition to the social guarantees set out in state legislation, additional guarantees have been introduced for each LDz employee in accordance with the collective labour agreement concluded between the Group companies and the Latvian Association of Railway Workers and the transport industry.

Parental leave

401-3



on leave

26



returned

45



28 employees - 4 men and 24 women (in 2022 - 30 employees - 8 men and 22 women) were employed at work 12 months after returning from parental leave.



Occupational safety and health

403-1; 403-2; 403-3; 403-4; 403-5; 403-6; 403-7; 403-8

To ensure that the working environment is safe for all employees, VAS "Latvijas dzelzceļš" fulfils the requirements of the laws and regulations of the Republic of Latvia in this area and has developed binding internal regulations - the Occupational Health and Safety Policy and the Occupational Health and Safety System.


The purpose of the policy is to define the principles and practises of the Group's occupational health and safety management in compliance with the requirements of the laws and regulations in the field of occupational health and safety in order to create and ensure a safe and non-hazardous working environment for the life and health of employees.

The Technical Inspection of VAS "Latvijas dzelzceļš" is responsible for the implementation of the occupational health and safety policy and compliance with the legal framework at state level in the company. Its task is both to control and monitor compliance with occupational health and safety regulations and to make recommendations for the continuous improvement of occupational health and safety in the company.

VAS "Latvijas dzelzceļš" Occupational health and safety policy and system includes the organisational structure, division of tasks, internal monitoring of the working environment, planning and assessment of risks in the working environment and the definition of specific measures to achieve the objectives set out in the occupational health and safety policy.

In order to develop occupational safety as a priority value both at every stage of the main activity and in interaction with society, in October 2023 VAS "Latvijas dzelzceļš" joined the social initiative "Mission Zero", committing to comply with and ensure higher work safety standards and care for its employees. Joining this initiative provides an opportunity for consultations with experts in the field and exchange of experience with other members of this initiative - even more than 90 representatives of Latvian employers, entrepreneurs and institutions, solving issues regarding safe working environment.

Workplace inspections in 2023

Department	Number of inspections	in 2022
 Directorate General	18	0
 Track Administration	41	129
 Electrotechnical Department	44	90
 Real Estate Administration	13	31
 Train Movement Authority	26	12
 Wagon maintenance distance	15	20
	157	282



As a result of these inspections of the internal monitoring of the working environment, a number of non-conformities were detected and eliminated, e.g. the storage of chemical substances or their mixtures in unlabelled packaging, the absence of chemical safety data sheets at certain workplaces and the lack of written confirmation that employees were familiar with the safety data sheets.

The Occupational Health and Safety Department of the LDz Technical Inspectorate monitors compliance with occupational health and safety requirements by organising internal monitoring inspections of the working environment as well as carrying out a comprehensive and honest investigation into accidents and near misses at work in order to identify the causes and draw conclusions with the aim of improving occupational safety and preventing the recurrence of such cases in the future.

Confidants, direct managers and heads of structural units are involved in occupational health and safety matters. In consultation with employees, the risk assessment of the working environment and the planning and implementation of preventive measures that may affect the health and safety of employees are carried out in order to improve the working environment and reduce occupational illnesses. Health and safety experts and those responsible for occupational health and safety carry out the planning and organisation of instruction and training on occupational health and safety issues and inform employees about the assessment of risks in the working environment, the results of the investigation of occupational accidents and other topics.

Before entering into an employment relationship as well as before using new processes and equipment, every employee is trained and instructed accordingly. Information materials on occupational health and safety, samples, diagrams, etc. are prepared and distributed to employees or displayed at workplaces.

VAS "Latvijas dzelzceļš" covers the costs of health insurance and mandatory health check-ups for all employees and provides employees with the health and safety equipment they need to carry out their work. In return, employees are regularly reminded of both the requirements for a healthy lifestyle and ways to eliminate risks related to safety in the work environment through various internal communication techniques.

Work-related injuries

403-9; 403-10

In 2023, 6 occupational accidents occurred as a result of exposure to LDz's work environment factors, in which 6 employees were injured (1 employee died as a result of an accident).

Investigation of accidents at work has been carried out in accordance with the requirements of 25.08.2009 Cabinet Regulation No. 950 "Procedures for the Investigation and Registration of Accidents at Work".

In five accidents, the victims did not have any serious health problems, so the investigation was carried out by the employer – VAS "Latvijas dzelzceļš". The necessary documentation was prepared, coordinated with an official from the State Labour Inspectorate (SLI) and submitted to the SLI.

Of the five accidents at work that did not have serious consequences, one accident was caused by slipping on an icy surface, and in two cases the ankle was dislocated and broken when the leg was bent unfavourably. In one case, an employee was diagnosed with Lyme disease infection following a tick bite. One employee suffered a contusion when he fell on his back when he underestimated his physical and gripping strength by pulling the worn wooden beam out of the floor with the help of sleeper tongs.

An employee - a track layer - was fatally injured while clearing snow from switches. There was a signalman at work who did not warn his fellow employee in time of the approaching train, so the employee died after a collision with rolling stock.

The accident, as a result of which the death of the employee occurred, shall be investigated by the State Police and an official of the SLI, involving a representative appointed by LDz.

- Number of work-related injury deaths = 1 and proportion = **0.2**;
- Number of work-related injuries with a high degree of harm (excluding deaths) = 0 and proportion = **0**;



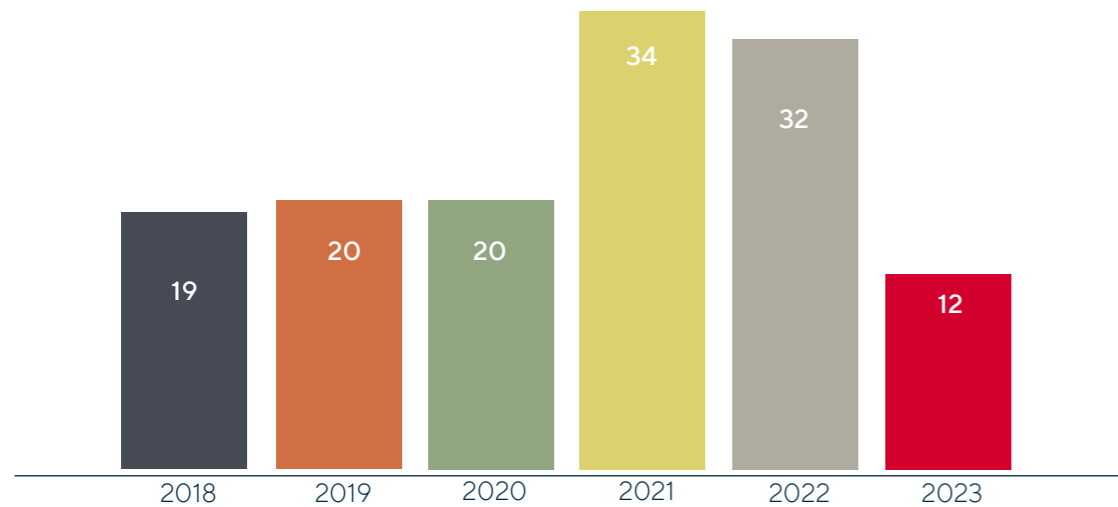
- Number of recordable work-related injuries = 5 and proportion = **0.9**.

*LDz employs only the workers employed by the company and only working hours of LDz employees are included in this statistics.

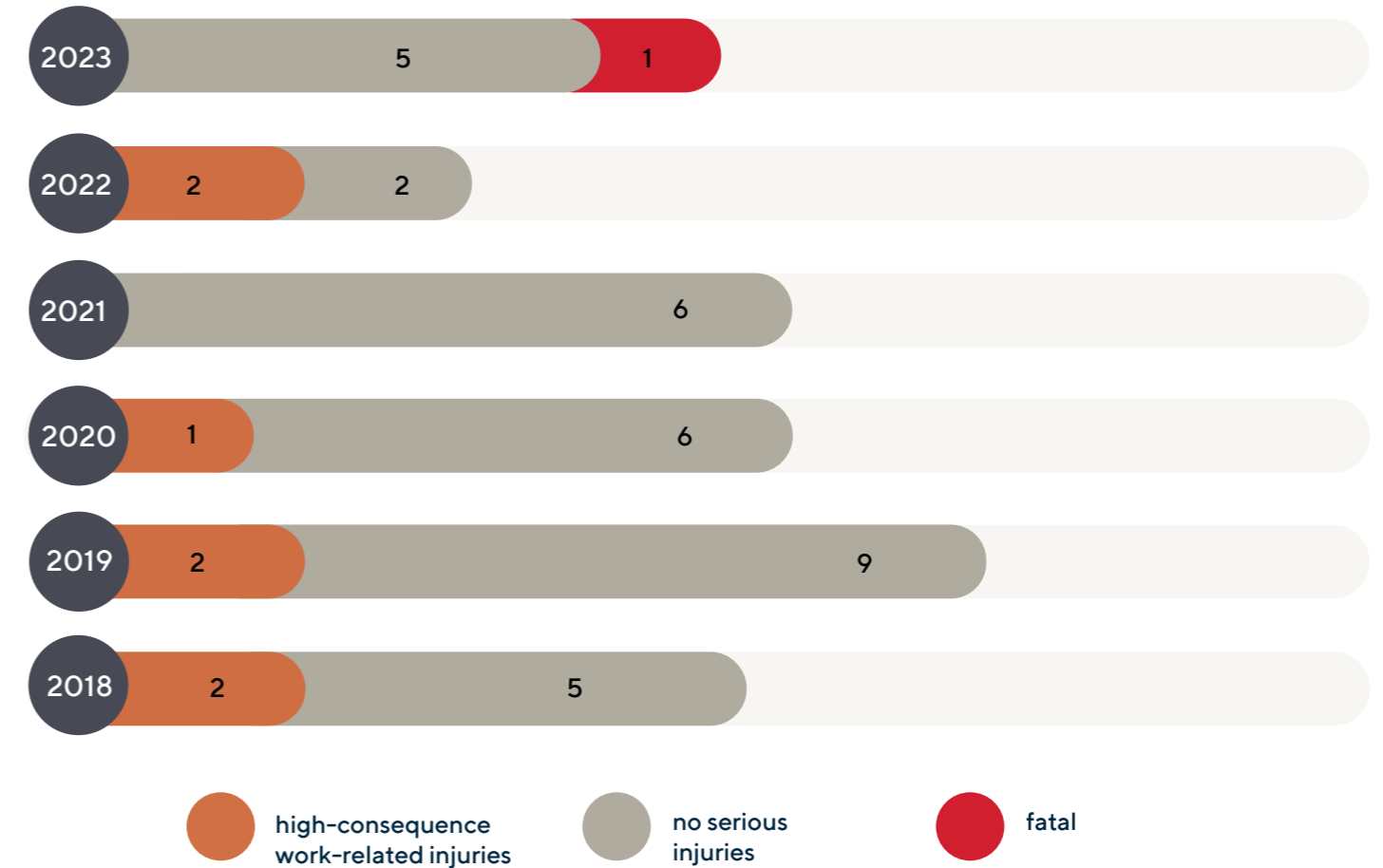
Work in the railway sector is physically demanding and difficult for certain professions, and every year the company's employees are diagnosed with occupational diseases contracted while carrying out their work duties. Occupational diseases are most common among employees who perform physical labour on a daily basis. The most common factors that cause occupational diseases as a result of prolonged exposure are physical overload, vibration, forced postures, tension in the back muscles and frequent twisting of the body.

In 2023, occupational diseases of VAS "Latvijas dzelzceļš" were confirmed for a total of 12 employees, which is 20 cases fewer than in 2022.

Dynamics of the total number of occupational diseases at VAS "Latvijas dzelzceļš"



Dynamics and breakdown of the number of employees injured in accidents according to the severity of the injuries





Incidents of discrimination

406-1

There were no discriminatory incidents in the company in the reporting year (nor were there any incidents in previous years). VAS "Latvijas dzelzceļš" observes the principles of non-discrimination in the employment of residents of different ages, genders and nationalities.

Employees' development

3-3

The Group's human resources and remuneration policy states that the company supports the professional development of its employees by offering them training and growth opportunities that enhance their professionalism and help to build loyalty.

Activity of the LDZ Training Centre

404-2; 404-1

The LDZ training centre plays an important role in the training of employees. This training facility is therefore being expanded in order to offer Group employees and external customers high-level training programmes.

LDZ Training Centre in 2023:

The LDZ Training Centre provided training in the amount of 33,546 participant hours (in 2022: 42,573 participant hours).

In total, 3,168 people were trained (in 2022: 3775), of which:





In 2023, as in previous years, priority has been given to training related to ensuring railway traffic safety, technical supervision of hazardous equipment, creation and maintenance of a safe working environment.

In the reporting year, non-formal education programmes and seminars were carried out, the examination procedure for the recognition of qualifications for first-class waggon technicians was ensured, and the operation of the training and examination system for railway specialists was guaranteed.

At the end of 2023, modular training for middle level managers has been implemented to reduce human resource management risks in the company, ensuring the improvement of the competences necessary for the manager's work:

- trained **18** middle level managers in 11 module programmes.

In order to provide LDz with railway specialists with appropriate qualifications, in 2023 the LDZ Training Centre organised training for those railway specialists who had a desire to improve their knowledge and skills in the issues of operation of traction vehicles, maintenance and repair of their units.

- **7** railway specialists successfully passed the qualification exam at Daugavpils Technical School of Technology and Tourism, obtaining a state-recognised educational document with the qualification "locomotive technician".

LDZ Training Centre was actively involved in the process of integration of new employees.

- In 2023, **58** new employees of the company participated in the "New Employees Day", strengthening the belonging and loyalty of new employees to the company, ensuring involvement in the team and increasing their level of personal comfort.

By ensuring compliance with the requirements of the laws and regulations governing railway traffic safety, the LDZ Training Centre maintains the operation of LDz IS "Examination System", which is intended for the training and examination of railway specialists.

- In 2023, **846** railway specialists proved their knowledge and qualifications for the performance of work duties.

Career assessment and career development measures

Every employee of VAS "Latvijas dzelzceļš" has the opportunity to pursue a career in one of the structures. With the involvement of HR management, both the professional qualifications of employees and their personal desire to improve their professional skills and competences are assessed.

On the basis of the LDz's internal regulations, career development negotiations should be conducted prior to the transfer of professional and managerial staff to another position. The results of the career development interviews are summarised in statements or summaries and serve as justification for the transfer/not transferring the employee being assessed or for another career development purpose. If necessary, an individual development plan with specific tasks and deadlines for improving competences will also be drawn up and the renegotiation should take place at the end of the period specified in this plan.



46 employees (in 2022: 43 employees) had career development interviews:

- 6 development interviews at assessing motivation to learn and testing the need to acquire /improve English language skills for the performance of work duties
- 5 career development interviews with the aim of transfer to the position of manager
- 15 career development interviews aimed at transferring to the position of specialist or engineer
- 4 development interviews aimed of verifying the implementation of individual development plans
- 16 staff interviews in connection with the training in the programme "Academy of Managers 2022"

Currently, LDz does not provide support programmes for employees in cases of termination of employment due to retirement or dismissal.



Society Road safety

3-3

Improving railway safety

416-1;416-2

One of the company's strategic priorities is the safety of pedestrians and other road users in the vicinity of the railway, which is why Road safety policy is one of LDz's key policies.

In 2023, VAS "Latvijas dzelzceļš" continued to make targeted investments in improving railway safety.

In 2023, the LDz continued its cooperation with the State Police and, according to the officers on duty at the level crossing control point, around 120 applications for the initiation of administrative offence proceedings in connection with non-compliance with the Highway Code by drivers at level crossings were filed to the State Police. Approximately 110 applications to initiate misdemeanour proceedings for damage to level crossing equipment were also filed to the State Police during the reporting period.

In the reporting year, as in 2022, no violations were identified in the area of road safety offences and no penalties or sanctions were imposed on the company.

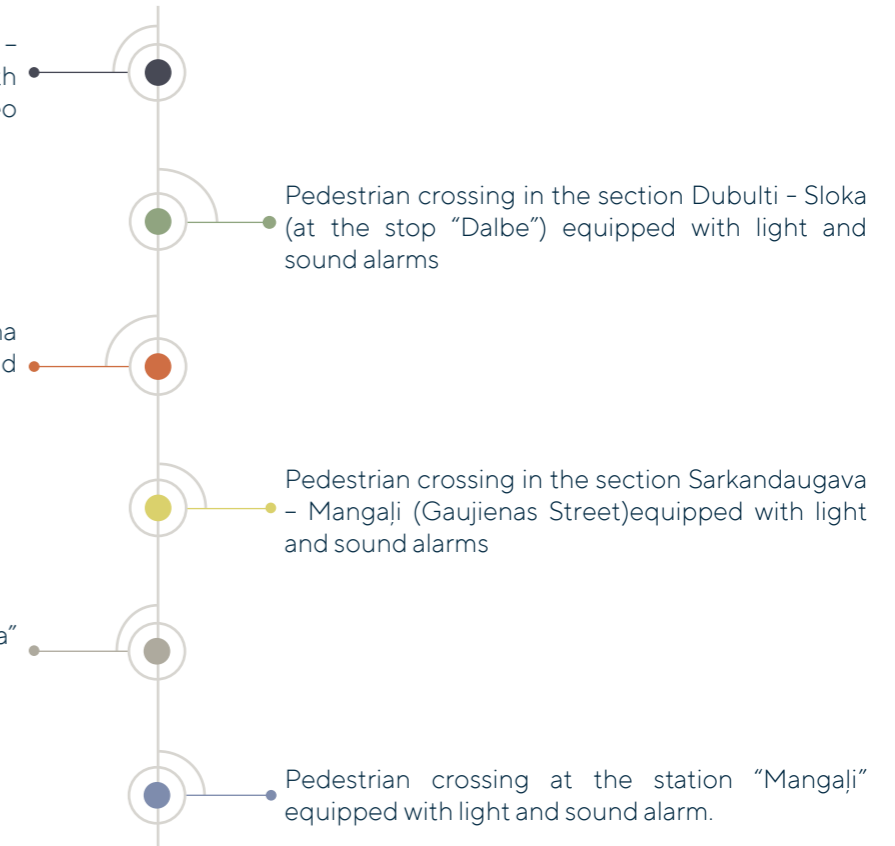
VAS "Latvijas dzelzceļš" has been taking educational measures for several years to raise public awareness of the problem of railway safety and to educate children and young people about safety issues in the vicinity of the railway. Further information on these measures can be found in the chapter "Educating the public" on [page 87](#).

Measures taken in 2023 to improve traffic safety:

The level crossing in the section Kemberi - Tukums I (Durbes Street) is equipped with automatic barriers with remote control and video surveillance system

Pedestrian crossing in the section Olaine - Cena (at the stop "Pumpuri") is equipped with light and sound alarms

Pedestrian crossing at the station "Ziemeļblāzma" equipped with light and sound alarm





Accidents on the railway

In 2023, a total of 16 accidents occurred on railway tracks involving a moving rolling stock and a pedestrian. A total of 11 people died in these accidents, while five people were injured. Including accidents categorised as suicides or attempted suicides, nine accidents were recorded in 2023, seven of which had a fatal outcome and in two accidents people were severely injured.

In accordance with Directive (EU) 2016/798 of the European Parliament and of the Council of 11 May 2016 on railway safety and Cabinet Decree No. 334 of 2 June 2020, Procedure for the classification, investigation and settlement of railway accidents, cases in which persons deliberately cause a collision with a train (suicide or attempted suicide) are not included in the accident statistics.

An analysis of the accidents that occurred revealed that in three accidents in which three people died in the reporting year, these people were in the track area without observing the safety regulations and had been sleeping on the tracks. In three other accidents in which three people were injured, the persons were at an unsafe distance from moving rolling stock. One accident in which one person – an LDz employee – was killed occurred while carrying out work tasks on the tracks. The circumstances of this accident are described in more detail in the chapter “Occupational health and safety” on [page 79](#).

The most common causes of accidents

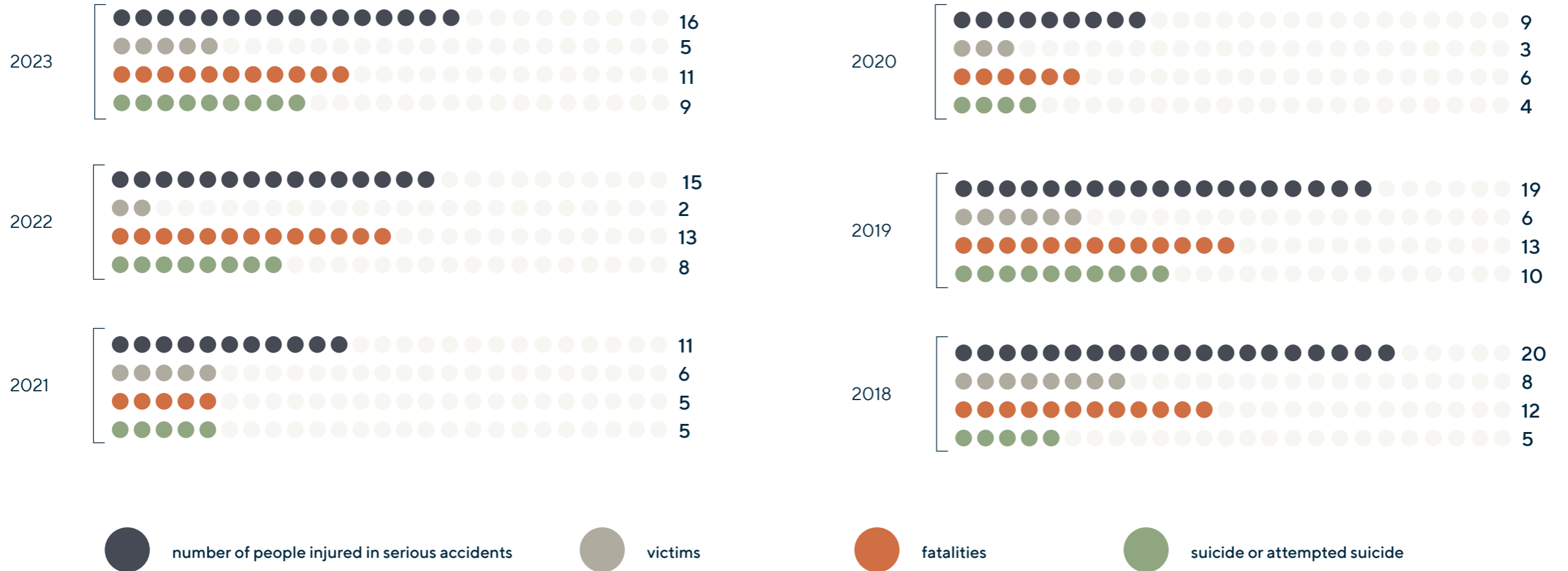
	Being in the track zone without observing the precautionary rules	A man slept in the track area: 3 people killed in 3 accidents	In 5 cases, the external signs of the accident victims indicated that they were under the influence of alcohol
	Being at an unsafe distance from moving rolling stock	3 injured people in 3 accidents	
	Accident at work	One employee of VAS “Latvijas dzelzceļš” died while performing work duties on the tracks	

In the reporting year, 2 people died in the areas of railway stations, while 5 accidents occurred on road sections, of which in 2 cases people died and 3 were seriously injured.

During the bright time of day, 2 accidents have occurred, and in the dark time of day – 5 of all accidents that occurred during the reporting year.



Victims of railway accidents





Educating the public

3-3; 413-1

Education in railway safety issues

In the last 10 years, an average of 18 people per year have died in railway accidents in Latvia, with most accidents being caused by careless or reckless behaviour. In order to educate residents on how to cross railway tracks safely and reduce the number of victims and fatalities in railway accidents, VAS "Latvijas dzelzceļš" has been carrying out educational activities for more than ten years, reminding residents of the most important safety rules that must be observed near or when crossing railway tracks.

In 2023, VAS "Latvijas dzelzceļš" began preparations for a new safety campaign aimed at raising awareness of the problem of railway accidents. The active phase of the campaign, which will be called "Warning by railway ghosts!" is planned for spring 2024, but LDz was already working with Latvian artists in 2023 to create an animated short film series and children and young people were actively involved in this process. In the reporting year, LDz organised two drawing competitions – "Draw a train" and "Draw the deadly helpers", in which every child and young person was invited to express themselves creatively by depicting trains or locomotives, a telephone, headphones and a scooter in their drawings. Thus, the audience of children and young people was additionally reminded of the safety in the vicinity of the railway and the responsiveness in the competitions was considerable – overall 2 569 works of art were received from all over Latvia, and nine of these drawings were brought to life in new animated short films.

VAS "Latvijas dzelzceļš" also regularly organizes safety lessons in educational institutions so that the reminder for special attention and caution in the vicinity of the railway is heard as widely as possible. In 2023, LDz specialists taught safety lessons to 164 classes in both schools and preschool educational institutions throughout Latvia, where 3304 children and young people got acquainted with the rules of safe rail crossing. In these safety lessons, children and young people are trained on how to behave correctly and safely near the railway and on the train, and also learn a lot of interesting things about the railway.

All up-to-date safety information is also available on the website of VAS "Latvijas dzelzceļš" www.dzirdiredzidzivo.lv.

Encouraging the growth of young professionals in the sector

LDz-2

VAS "Latvijas dzelzceļš" has been working closely with vocational and higher education institutions for several years, promoting the training and recruitment of young professionals for the company and the railway sector as a whole.

Among the long-term cooperation partners of LDz are Riga Technical University, as well as Riga and Daugavpils vocational education institutions, where young specialists in the field of railways are trained.

In 2023, in cooperation with the Transport Institute of the Faculty of Mechanical Engineering, Transport and Aeronautics of Riga Technical University, Riga State Technical School, Daugavpils Technology and Tourism Technical School and other educational institutions, LDz organised training internships for 72 students and students of these educational institutions. Also during the reporting year, the LDZ Training Centre organised 5 information days for the 1st year students of the Riga State Technical School's Railway Power Line Mechanic, Railway Transport Automation, Telemechanic and Communication Technician, and Track Technician specialties, thus deepening their understanding of their future profession.

In order to promote the involvement of young people in the railway sector and to promote professions characteristic to railways, LDz also engages in a career education programme for pupils "Shadow Day". In 2023, pupils had the opportunity to "shadow" 11 representatives of different railway professions in Riga and Daugavpils, and a total of 21 pupils participated in the Shadow Day.



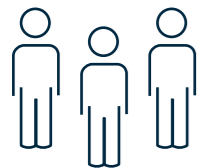
Preservation of historical heritage

LDz-3

VAS "Latvijas dzelzceļš" not only takes care of the quality, safety and development of the existing railway infrastructure, but also preserves those testimonies of railway history that tell of the beginnings of the railway industry in Latvia, which can be traced back to the second half of the 19th century.

The main custodian of the railway heritage is the Latvian Railway History, whose exhibitions are located in Riga, at 2a Uzvaras Boulevard, and in Jelgava, at 3 Stacijas Street. The museum's activities are based on the museum's statutes and Medium-Term Development Strategy until 2030.

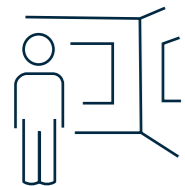
The museum is proud to have the most extensive collection of rolling stock in the Baltic States and takes care of the preservation of a variety of evidence of railway history. The museum's collections are regularly updated, both through the discovery and purchase of various objects by the museum itself and through the receipt of gifts from railway enthusiasts. The museum displays the largest and most modern railway layout in the Baltic States on a scale of 1:87. 44 m2 in size, the layout is unique as most of the parts are handmade. It was created over several years with the participation of railway modelling enthusiasts from Latvia and abroad.



museum visitors

31 909 in 2023

26 813 in 2022



number of objects in the museums collection

20 551 in 2023

20 513 in 2022



the museum's revenue from entrance tickets

EUR 71 640,50 in 2023

EUR 57 074,00 in 2022



6 exhibitions 9 889 visitors in 2023

5 exhibitions 17 566 visitors in 2022



509 excursions and classes 6 773 visitors in 2023

472 excursions and classes 7 130 visitors in 2022

A blurred freight train moving on tracks with gravel in the foreground. The train is moving from left to right, and the wheels and tracks are blurred to convey motion. The foreground is filled with grey gravel. The background shows a building and some greenery.

08

ECONOMIC
IMPACT



Effective management, modernisation and development of infrastructure

3-3

VAS "Latvijas dzelzceļš" is one of the largest companies in Latvia, which through its economic activity makes a significant contribution to the national economy and ensures the use of railway infrastructure for passenger and freight transport. The main task of LDz is the management of the state public-use railway infrastructure and the provision of safe, high-quality and efficient railway services in the interests of the State and national economy of Latvia.

In accordance with the Railway Law, VAS "Latvijas dzelzceļš" provides a complex of services for minimum access to publicly used railway infrastructure and access to publicly used railway infrastructure, which combines railway infrastructure with service facilities, services, sorting and assembly services of freight waggons, maintenance and inspection services of waggons, electricity distribution and trade services, leasing services, information technology services, electronic communication services and other services.

VAS "Latvijas dzelzceļš" operates in accordance with 14.07.2021 Medium-term Operational Strategy for 2021-2025 approved by the Council of LDz and the Action Plan for its implementation. In turn, the "VAS "Latvijas dzelzceļš" Concept for infrastructure development for 2021-2035" includes a description of the current railway infrastructure and related aspects of LDz operation and outlines the vision of the strategic development of Latvijas dzelzceļš and its most important directions, which are directly reflected in the medium-term operational strategy of Latvijas dzelzceļš, projects aimed at infrastructure development and modernisation.

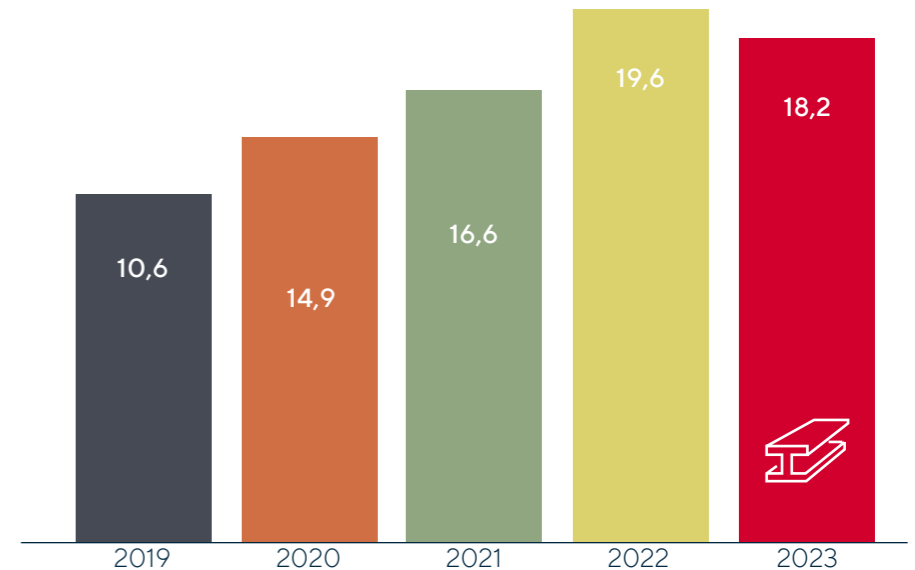
In 2023, the issue of Cabinet approval of the indicative railway infrastructure management plan was not resolved, but it is planned that the plan will be approved in early 2024. It is the most important policy planning document in relation to the development of railway infrastructure and its provision for the needs of the national economy, and the development of the strategy for the further development of LDz and internal planning documents, including the updating of the medium-term operational strategy or the development of a new strategy, depends on it.

Investments into infrastructure and service development

The task of VAS "Latvijas dzelzceļš" as a public infrastructure manager is to ensure the construction and maintenance, renewal and development of railway infrastructure on the basis of a sustainable financing model of the railway system that meets the requirements of the European core railway network, by implementing efficient management of the resources at its disposal and ensuring the operation of a complete railway service throughout the national territory.

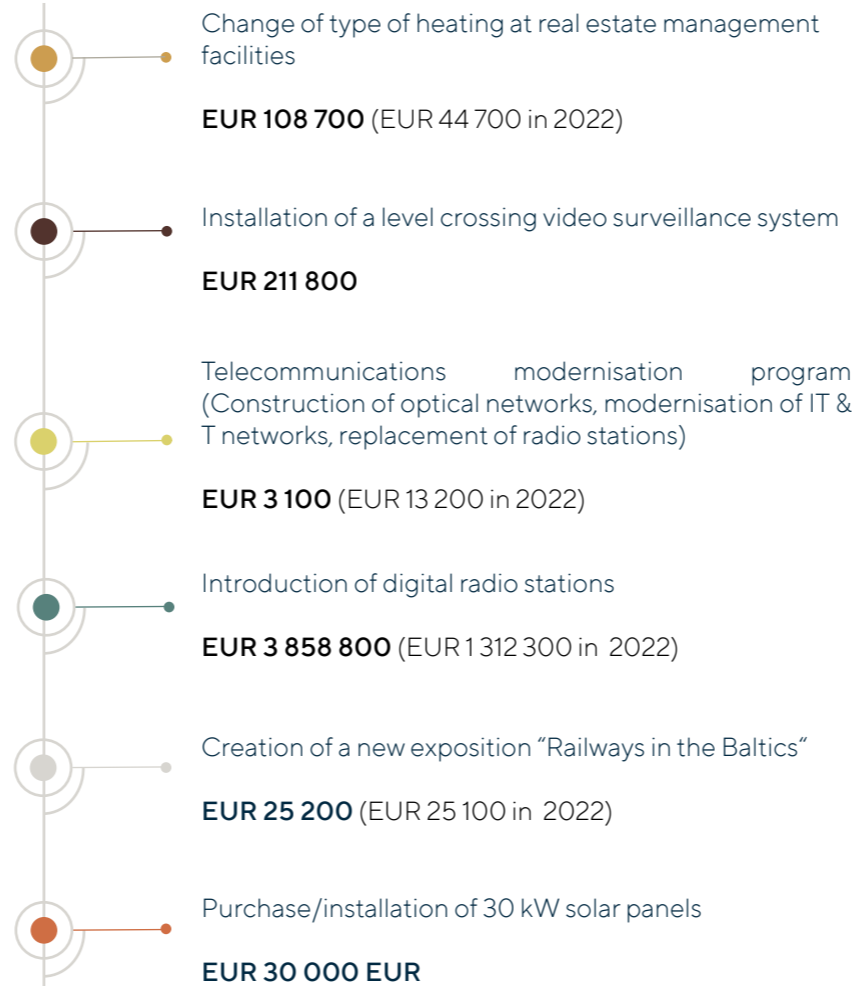
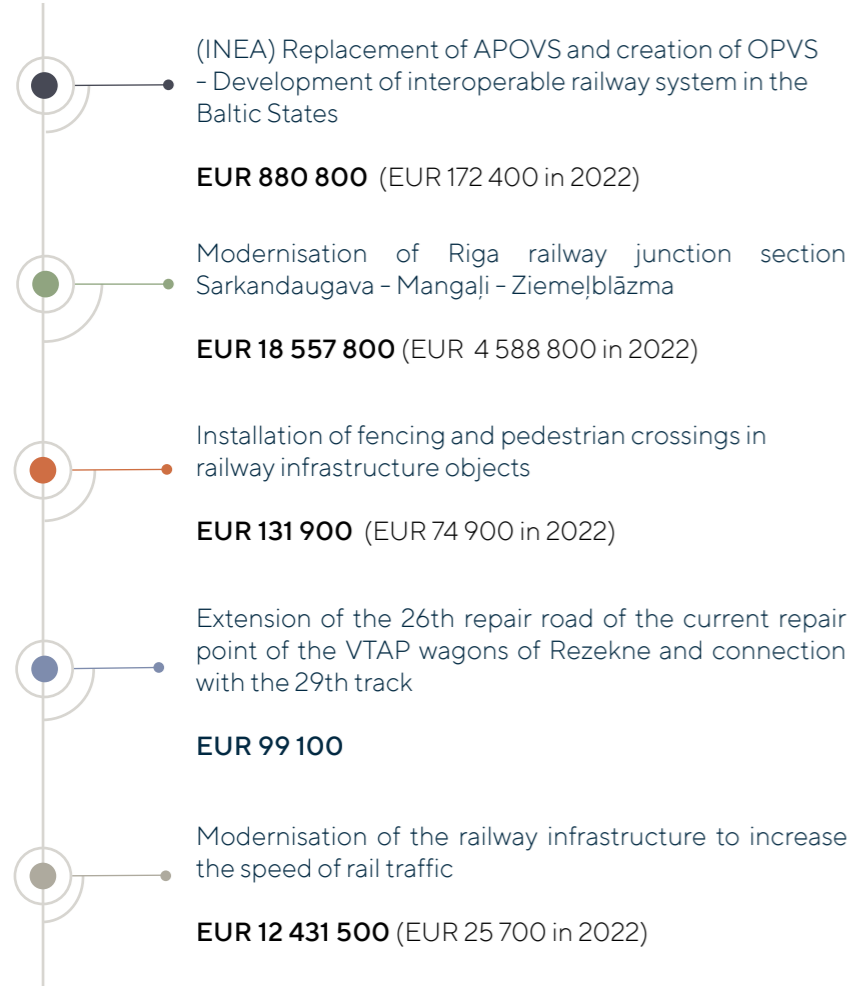
Several inspections are carried out each year to document the quality of the tracks and decide on the necessary improvements. The assessment of the condition of the tracks is expressed by the average score obtained by dividing the sum of the total points of the section to be inspected by the number of kilometres inspected. According to the inspections carried out, the quality of the tracks in Latvia has long been rated "excellent". In 2023, the average score was 18.2 points, 1.4 points lower than in 2022, when the score was 19.6 points. This quality indicator has been maintained thanks to investments in infrastructure that ensure its quality, safety and competitiveness.

Track quality rating





Investments in infrastructure development made in 2023



Total investments in development in 2023 EUR 51 337 100 (investments in development in 2022 EUR 6 881 300)



Projects co-financed by EU funds and programmes

In fulfilling the objective of its main activity – maintenance and development of railway infrastructure, VAS “Latvijas dzelzceļš” is constantly planning infrastructure improvement and modernisation, including by attracting funding from European Union funds. In more detail, these projects are described in the chapter “Railway infrastructure development projects” on [page 28](#).

Selection of business partners and suppliers

3-3; 204-01

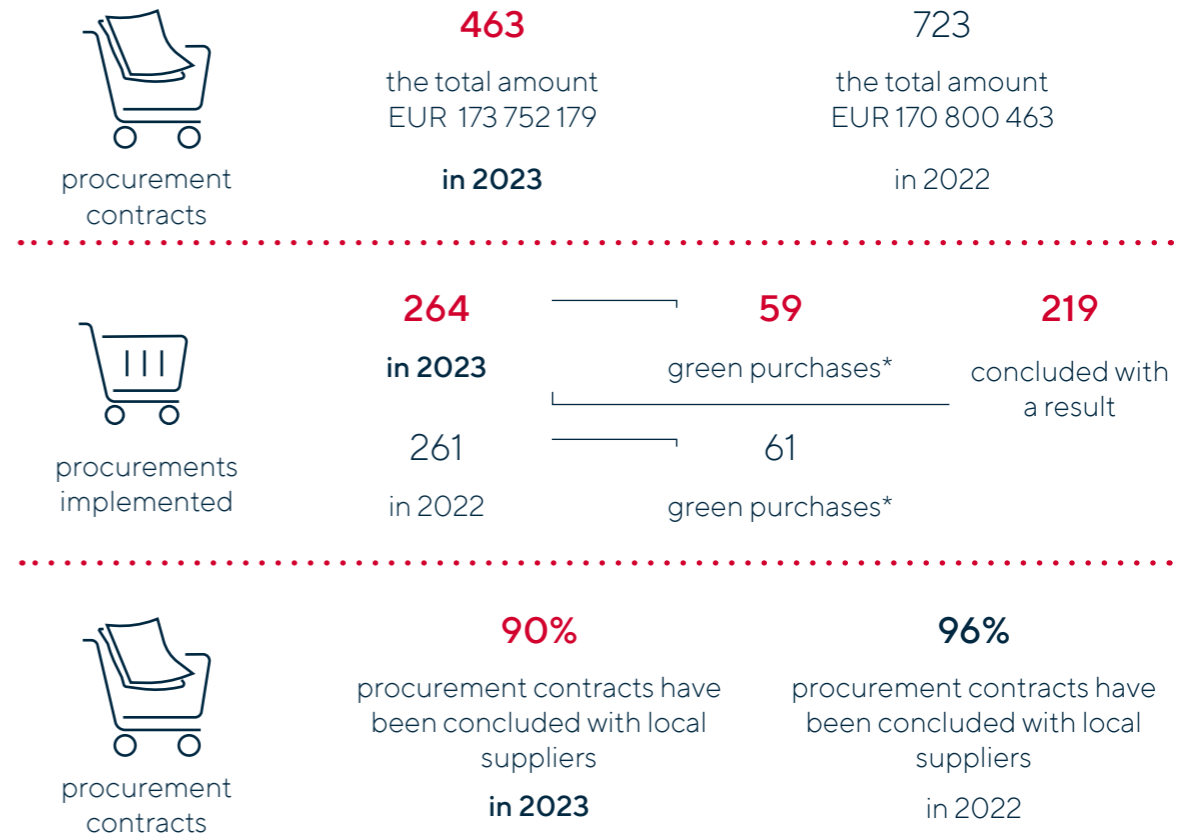
VAS “Latvijas dzelzceļš”, as a provider of public utilities, acts in accordance with the Law on Procurement of Public Service Providers in the organisation of procurement procedures, complies with the Guidelines for Providers of Public Utilities approved by the Procurement Monitoring Bureau and the procurement rules developed by the Group, as well as acts in accordance with the Code of Business Ethics of the Group’s cooperation partners.

The LDz Procurement Office is responsible for drawing up procurement plans and contracts, organising procurement processes and legally monitoring them within the company. It complies with all binding legal provisions and works together with the LDz Security Directorate to ensure that all procurements are as transparent, fair and open as possible. Every LDz procurement contract contains references to the Code of Business Ethics for the Group’s co-operation partners, which must be adhered to by both contractual partners. In case of doubt, the Whistleblowing Mechanism may be activated, which provides for the possibility for anyone to anonymously report possible cases of fraud, corruption or conflict of interest.

Within the framework of each procurement, the Procurement Office carries out checks on the bidder to be awarded the contract in accordance with the Law on International Sanctions and National Sanctions of the Republic of Latvia before deciding on the award of a procurement contract. At the same time, it is checked whether the goods offered by the bidder are not subject to an import ban to Europe in accordance with the standards of international or national sanctions.

When implementing procurement procedures, the Procurement Office shall respect openness, the principle of free competition, equal and fair treatment, which implies the establishment of the same requirements and evaluation criteria for all tenderers

Iepirkumi



*Green procurement is procurement where environmentally friendly and/or recycled materials are used or purchased, or contain environmental improvement and sustainability measures



In total, 264 procurements were carried out in 2023, of which 219 have ended with a result and 463 procurement contracts have been concluded, including 59 of the procurements where the principle of “green procurement” was applied and within the framework of these procurements such goods as office paper, printing equipment, computer equipment and servers, household goods (cleaning products, etc.), light bulbs, etc., as well as procurements for services, electricity and construction were purchased.

An essential prerequisite for the functioning of the Procurement Office is the efficient use of resources. Thanks to a well thought-out and responsible procurement policy, budget funds totalling 2.3 million euros or 1.34% were saved in 2023. The amount saved is calculated by comparing the amount of planned procurements of completed procurements with the actual contract value of the procurements.

Of the 463 contracts concluded in 2023, 32 contracts have been concluded with a foreign supplier, 16 contracts with a foreign branch in Latvia, all other 415 were contracts with Latvian suppliers. (In 2022, of the 723 contracts concluded, 25 contracts were concluded with a foreign supplier, 3 contracts with a foreign branch in Latvia, the remaining 695 were contracts with Latvian suppliers)

Direct economic impact

3-3; 201-1

With the war in Ukraine instigated by Russia, the decline in freight volumes already observed in previous years was further impacted by the sectoral sanctions. A large part of the sectoral sanctions came into force gradually and the real impact of the sanctions was only visible from the second half of 2022, therefore a larger decline in freight volumes was observed in 2023. In the reporting year, 15.6 million tons of freights were transported through the infrastructure of LDz (in 2022: 21.6 million tonnes), which is 27.6% less than in the previous year – the volume of coal, oil products and mineral fertilizers transported, which is the most typical cargoes transported in the direction of Latvia from Russia and Belarus in previous years, has decreased in particular.

Meanwhile, a positive trend emerged in the volume of passenger traffic, and in 2023 a total of 17.134 million passengers were transported by rail (in 2022: 15.6 million passengers), which is 9.2% more than in 2022.

If we analyse the structure of rail transport in Latvia, we see that freight transport has dominated the use of the rail network in recent years. Since 2020, this situation has changed, and in 2023 the share of passenger transport in terms of train kilometres already reaches 67% of the total train kilometres on the rail network. (In 2022, the share of passenger transport was 56%).

Passenger and freight transport by rail has a direct economic impact on both the sector and the economy as a whole, but as other sectors do not operate in isolation from each other, it also has an indirect economic impact on other sectors of the economy. A significant proportion of freight ends up in Latvian ports, which means that the railway also has an indirect economic impact on the port and maritime transport sector, and VAS “Latvijas dzelzceļš” has been working with the three largest ports in Latvia for many years.

VAS “Latvijas dzelzceļš” employs several thousand people throughout Latvia, which means that by providing regular income to a significant number of inhabitants, the company has an indirect impact on both the trade and service sector and other sectors related to consumption.

Annual social contributions to the state budget also have an indirect economic impact on sectors such as medicine, education, defence and others. From the social contributions made by enterprises, the budget of critical national sectors is formed.



In total, VAS "Latvijas dzelzceļš" has paid EUR 43.11 million in taxes to the state budget in 2023, of which EUR 28.76 million were made up of national social insurance mandatory contributions, EUR 8.72 million - personal income tax, EUR 4.47 million - value added tax and EUR 579 thousand - real estate tax. (In 2022, the total amount of taxes was EUR 45 million).

In response to the changing market conditions, LDz has already significantly optimised its activities in recent years and continued its cost-cutting measures in the reporting year in order to become a more efficient and competitive company. At the same time, taking into account the optimisation measures already taken, the minimum permissible level of resources and investment for infrastructure management was achieved in order to ensure the functionality of the existing infrastructure and compliance with the requirements of the TEN (Technical Operating Regulations for Rail Transport). Therefore, there are opportunities to further reduce the costs of infrastructure maintenance in the future only by reviewing and reducing the amount of railway infrastructure managed by Latvian Railways and the quality requirements.

Operating costs of 2023 (EUR)

	2023	2022	Share %
Total operating costs	193 738 242	181 274 823	100%
Total personnel costs	86 223 787	78 614 069	44,5%
Costs related to wages and salaries	66 166 385	62 103 071	34,2%
Social insurance contributions	15 963 833	14 679 268	8,2%
Citas personāla izmaksas	4 093 569	1 831 730	2,1%
Total cost of goods, materials and services	60 208 675	49 220 893	31,1%
Consumed materials	5 573 544	4 447 756	2,9%
Fuel, fuel	3 119 203	3 095 112	1,6%
Electricity	24 064 241	15 719 924	12,4%
Cost of services	27 451 687	25 958 101	14,2%
Depreciation, amortisation and values Decrease	45 869 449	51 088 788	23,7%
Other costs	1 436 331	2 351 073	0,7%



Revenue in 2023 and its structure (EUR)

	2023	2022	Share from total revenue 2023, %
NET revenue	165 409 602	153 158 297	100%
Revenue from the minimum access service package and access to infrastructure connecting infrastructure to service facilities	43 499 341	50 637 169	26,3%
State grant for the minimum access service package and access to infrastructure connecting infrastructure to service facilities, including for the maintenance of unused service facilities	35 832 255	30 324 873	21,7%
Revenue for additional services of the infrastructure manager	19 854 268	21 752 113	12%
State grant to ensure financial balance	32 439 157	24 358 998	19,6%
Other services	33 784 581	26 085 144	20,4%



revenue

EUR 165,4 million
in 2023

EUR 153,15 million
in 2022



taxes paid

EUR 43,11 million
in 2023

EUR 45,06 million
in 2022



company value

EUR 171,26 million
in 2023

EUR 232,9 million
in 2022



In 2023, the average gross wages and salaries of employees in the VAS "Latvijas dzelzceļš" amounted to EUR 1,519.40 per month (2022: EUR 1,430.90), which is EUR 17.60 below the national average. According to data from the Central Statistical Office, the average monthly gross salary in Latvia in 2023 was EUR 1,537.00. The net revenue (including state funds to ensure financial balance) per employee of VAS "Latvijas dzelzceļš" amounted to EUR 44,717 in 2023 (2022: EUR 41,350).

Procurement of funds and investments for operational development 3-3; 201-4

Taking into account that due to the changing market conditions of recent years the public-use railway infrastructure manager has developed a deficit of financial resources related to the loss of income from economic activity and covering of the costs of provision of infrastructure, its financial balance is ensured from the State budget.

Information on the amount of state funding received in 2023 and the purpose of financing

Purpose of funding	Basis	Amount in EUR
To ensure the financial balance of LDz for 2022	The Cabinet Order No. 929 On Allocation of Financial Resources from the State Budget Programme 02.00.00 "Funds for Unforeseen Events" of 28 December 2023, and Order No. 01-03/226 of the Ministry of Transport, On Payment to Ensure the Financial Balance of VAS "Latvijas dzelzceļš" for 2022" of 29.12.2023	10 million
Grant to VAS "Latvijas dzelzceļš" to compensate for the costs of the minimum access service package and maintenance of service facilities in the passenger segment.	The Order of the Ministry of Transport No. 01-03/87 of 12.05.2023 "On a grant to VAS "Latvijas dzelzceļš" for compensation of the costs of minimum access to the complex of services and maintenance of service facilities in 2023"	35.8 million



Development of new technologies and digitalisation of activities

LDz-4

The railway infrastructure consists of various components, including such technological processes, the task of which is to guarantee high-quality and safe operation of it. Over the past few years, LDz and the Group have gradually reduced the number of employees in the company, both in order to reduce expenses and stabilize the financial situation. This has been made possible by making operations more efficient and improving various technological processes.

The digitalisation of processes and the introduction of new technology opportunities with the aim of constantly increasing the efficiency of the company's processes is taking place in most of LDz's structural units. In 2023, various projects were launched or continued, the purpose of which is the introduction of innovative technologies in the company.

The most significant of them:

- **Development of an interoperable railway system in the Baltic States.** Within the framework of the project, VAS "Latvijas dzelzceļš" in cooperation with the Estonian company AS "Eesti Raudtee" introduces technical solutions, ensuring the minimum mandatory exchange of information between railway companies – railway companies, infrastructure managers, wagon owners.
- **Introduction of digital radio communications.** Taking into account that the radio stations used so far are gradually running out of operating permits, the project is being implemented in order to modernize the radio communication system, which ensures the movement of trains.
- **SAP function expansion.** The aim of the project is to create a tool in the SAP system that enables the creation of a financial forecast for costs, revenues and investments for future periods within the system.
- **Digitise level crossings.** As part of the project, IT solutions are being developed that would allow to obtain information on vehicles recorded in video surveillance systems that have crossed LDz railway level crossings according to data selection criteria.
- **The introduction of a work performance and goal management system (DIMVS).** A goal management system is being developed – automated goal definition, coordination, execution control and reporting process, ensuring the availability of data on the status of goal fulfillment for each employee, structural unit and LDz as a whole.

An aerial photograph of a steel mill. In the foreground, a black train car is filled with long, brown steel beams. The beams are arranged in neat rows. In the background, there are stacks of steel beams on the ground. The floor is made of large concrete slabs. The overall scene is industrial and organized.

09

INDEPENDENT
LIMITED
ASSURANCE
REPORT



Independent Limited Assurance Report

To the Management of VAS "Latvijas Dzelzceļš":

Introduction

We have been engaged by the Management of VAS "Latvijas Dzelzceļš" (the "Company") on the basis of our contract dated 30 May 2022 and appendix No. 2 dated 12 February 2024 of the contract dated 30 May 2022 to provide limited assurance on the Selected information described below and included in the Sustainability and Annual report 2023 of the Company for the year ended 31 December 2023 on pages 4 to 97 ("the Sustainability report 2023"). The Sustainability report 2023 represents information related to the Company.

Selected Information and Reporting Criteria

We assessed the qualitative and quantitative information, that is disclosed in the Sustainability report 2023 and referred to and included in the GRI Content Index (hereinafter – the "Selected Information"). The Selected Information has been prepared in accordance with GRI Sustainability Reporting Standards (hereinafter – the "GRI Standards"), published by the Global Reporting Initiative (GRI).

The scope of our limited assurance procedures was limited to the Selected Information for the year ended 31 December 2023. We have not performed any procedures with respect to earlier periods or any other items included in the Sustainability report 2023 and, therefore, do not express any conclusion thereon.

We assessed the Selected Information using relevant criteria, including reporting principles and requirements, in the GRI Standards (hereinafter – the "Reporting Criteria"). We believe that the Reporting Criteria are appropriate given the purpose of our limited assurance engagement.

Responsibilities of the Management of the Company

The Management of the Company is responsible for:

- designing, implementing and maintaining internal control relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;

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



- establishing internal methodology and guidelines for preparing and reporting the Selected Information in accordance with the Reporting Criteria;
- preparing, measuring and reporting of the Selected Information in accordance with the Reporting Criteria; and
- the accuracy, completeness and presentation of the Selected Information.

Our Responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Company's Management.

We performed the limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements, and plan and perform procedures to obtain limited assurance on whether the measures taken by the Company in respect of Selected information comply in all material respects, with the Reporting criteria.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. We have fulfilled our other ethical responsibilities in accordance with IESBA Code.

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Our firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of the Work Performed

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. It also included an assessment of the significant estimates and judgements made by the Management in the preparation of the Sustainability report 2023 in accordance with the GRI Standards.

Our work consisted of:

- interviewing the Management to evaluate the application of the GRI Standards and to obtain an understanding of the control environment related to sustainability reporting;
- obtaining an understanding of the relevant processes for collecting, processing and presenting data included in the Sustainability report 2023;
- comparing data from Selected information to internal documentation and corroborating statements of Management in the interviews;
- comparing the financial data included in the Sustainability report 2023 to the financial statements 2023 of Company; and
- evaluating the overall format and content of the Sustainability report 2023, taking into account the compliance of the disclosed information with the Reporting Criteria.

Reporting and Measurement Methodologies

Under the Reporting criteria there is a range of different, but acceptable, measurement and reporting techniques. The techniques can result in materially different reporting outcomes that may affect comparability with other organisations. The Selected Information should therefore be read in conjunction with the methodology used by the Management as described in the Sustainability report 2023, and for which the Company is solely responsible.

Our Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 December 2023 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

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FOREWORD

ABOUT THE
REPORT

ABOUT
LDZ

CORPORATE
GOVERNANCE

KEY AREAS OF
SUSTAINABILITY
AND STAKEHOLDER
ENGAGEMENT

ENVIRONMENTAL
IMPACT

SOCIAL
IMPACT

ECONOMIC
IMPACT

INDEPENDENT
AUDITOR'S ASSURANCE
REPORT



Restriction of Use and Distribution

This report, including our conclusion, has been prepared solely for the Company's Management in accordance with the agreement between us, to assist the Management in reporting on the Company sustainability performance and activities. We permit this report to be disclosed in the Sustainability report 2023, which will be published on the Company's website¹, to assist the Management in responding to their governance responsibilities by obtaining an independent limited assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Management of the Company for our work or this report except where the respective terms are expressly agreed in writing and our prior consent in writing is obtained.

PricewaterhouseCoopers SIA
Certified audit company
License No. 5

Ilandra Lejiņa
Member of the Board

Jana Smirnova
Certified auditor in charge
Certificate No. 188

Riga, Latvia
27 March 2024

¹ *The maintenance and integrity of the Company's website is the responsibility of Management; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on the Company's website.*

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A composite image featuring railroad tracks in the foreground, curving through a landscape. The tracks are supported by wooden ties and surrounded by gravel. In the background, there is a grassy embankment, a small stream, and a tall utility tower with a red and white striped pattern. The sky is a mix of blue and grey, suggesting a cloudy day. The overall scene is a mix of natural and industrial elements.

10

ANNUAL
REPORT 2023

Saturs

01 MANAGEMENT REPORT



Management report

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02 FINANCIAL STATEMENTS



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03 INDEPENDENT AUDITOR'S REPORT



Independent auditor's report

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Translation note:

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Management report

ON THE ECONOMIC ACTIVITY OF THE STATE JOINT STOCK COMPANY "LATVIJAS DZELZCEĻŠ" IN 2023

1. An overview of the state joint stock company "Latvijas dzelzceļš"

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

The principal task of the Company is to manage the national public-use railway infrastructure and to provide safe, high-quality, and efficient railway services in the interests of the Latvian state and economy. As at 31 December 2023, Latvijas dzelzceļš, as the manager of public-use railway infrastructure, owned the rail network with the extended length of 3,178.16 km, including the technologically connected station ways and sidings related thereto, as well as other infrastructure objects.

The Company is the dominant company of the Latvijas dzelzceļš Group (hereinafter "the Group"). The Group consists of the parent company and five subsidiaries (six subsidiaries until 12.04.2023), all of which together provide customers with diversified railway industry 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. The Company, as a customs cooperation partner, taking part in 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" provides international and domestic freight transportation services, including hazardous and oversized freights, and provides other services related to rail freight transportation. It carries a wide range of freight in containers and wagons, almost all types of cargo listed in the Harmonised Commodity Code (NHM). SIA "LDZ CARGO" operates in the legal framework of SMGS (Agreement on International Goods Transport by Rail) and CIM (Uniform Rules Concerning the Contract of International Carriage of Goods by Rail, Appendix B to the Convention Concerning International Carriage by Rail (COTIF)) and uses the East-West and North-South transport corridors for the carriage of goods. To continue the development of its business activities in Estonia, SIA "LDZ CARGO" opened its branch in Estonia, which was registered in the Register of Companies of the Republic of Estonia on 19 June 2023.

SIA "LDZ ritošā sastāva serviss" performs maintenance and repairs of railway rolling stock, equips and modernizes locomotives, provides mainline freight, shunting diesel locomotives and track machinery lease services, locomotive spare base maintenance services, and is engaged in fuel trading. The company also provides non-destructive control laboratory services and sells spare parts for 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 monitors the received alarm signals.

AS "LatRailNet" performs the essential functions of the railway infrastructure manager. The company makes decisions on the railway infrastructure capacity and train paths allocation, on the access fee calculation system, determination, assessment, and collection of fees. It also cooperates with other essential functions providers on matters of international connections.

Until 12 April 2023 VAS "Latvijas dzelzceļš" owned a subsidiary, SIA "LDZ infrastruktūra". Under the Cabinet of Ministers Order on 12 January 2022 No. 13 "On the termination of the decisive influence of state joint stock company "Latvijas dzelzceļš" on and shareholding in the limited liability company "LDZ infrastruktūra", and on the termination of the indirect decisive influence of state joint stock company "Latvijas dzelzceļš" on and shareholding in the limited liability company "Rīgas Vagonbūves Uzņēmums "Baltija"", and on the termination of the direct decisive influence of limited liability company "LDZ ritošā sastāva serviss" on and shareholding in the limited liability company "Rīgas Vagonbūves Uzņēmums "Baltija"", the liquidation procedure of SIA "LDZ infrastruktūra" was started in 2022. On 12 April 2023 the company was excluded from the Commercial Register by the Latvian Enterprise Register Decision No. 6-12/31379.



To improve corporate governance practices and develop an understanding of social responsibility in the Group, as well as strengthen a sustainable yet innovative mindset in the tradition-rich railway sector, since 2016, Latvijas dzelzceļš has been preparing sustainability reports following the internationally recognised guidelines of the Global Reporting Initiative (now – “GRI standards”).

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. Based on the Group performance assessment in terms of sustainable development and good governance, in June 2023 the Sustainability Index experts awarded Latvijas Dzelzceļš the Gold category, whereas its subsidiaries were awarded the following ratings: SIA “LDZ CARGO” – the Platinum category, SIA “LDZ ritošā sastāva serviss” and SIA “LDZ Loģistika” – the Gold category, and SIA “LDZ apsardze” – the Silver category.

Since 2012, the Company has been a member of the Ministry of Finance In-depth Cooperation Programme, which aims at promoting closer and more effective cooperation between taxpayers and the tax administration and reducing the administrative burden. As a Gold-level member of the In-depth Cooperation Programme, Latvijas dzelzceļš has received statutory reliefs and advantages. On 31 December 2023, the In-depth Cooperation Programme ceased to exist, however from 1 January 2024, the State Revenue Service (“SRS”) provides an overall assessment of the taxpayers’ ratings based on the companies’ tax compliance and other data available to the SRS. At the time of this report, Latvijas Dzelzceļš had received the highest level “A” in the taxpayer rating, which provides for several SRS benefits in the field of taxes and customs.

The average number of employees in 2023 was 3,945, which is 92 less than in 2022. This reduction in the number of employees is the result of the Company’s targeted measures to optimize the number of employees and costs in 2023, by reviewing functions and changing the organizational structure.

In 2023, the Group’s average workforce was 6,219 employees, which was 263 employees less compared to 2022.



6 219

The Group’s average number of employees in **2023**

6482

The Group’s average number of employees in 2022

2. 2. Operating performance

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

In 2023, the train-km totalled 9,773 thousand train-km, including technological train-km, but excluding those run for the own needs of Latvijas dzelzceļš, which was a decrease by 9.1% compared to 2022, of which in freight traffic – a decrease by 27.7%. Conversely, the number of train-km in passenger traffic increased by 4.1%. In 2023, 3,225 train-km were run carrying freight along the public-use infrastructure of Latvijas dzelzceļš, and 6,543 thousand train-km were run carrying passengers (including SIA “Gulbenes-Alūksnes bānītis” – 48.4 thousand train-km).

The volume of freight transported in 2023 was 15,636 thousand tonnes, a decrease of 5,952 thousand tonnes (27.6%) compared to 21,588 thousand tonnes in 2022.

Imports constituted the majority of freight transportation, representing 61.6% of the total freight volume. Its volume in 2023 was 9,633 thousand tons, which is a 31.5% decrease compared to the previous year.

The majority of freight transported in 2023 was grains, grain processing products, seeds and fruits (36.7%), oil and oil products (17.1%), and coal (10.7%). Timber and its products accounted for 2.7% of the total transport volume, mineral fertilisers for 1.5%, and other goods for 31.3%. In the “Other goods” category, the most predominant types of cargo included ores, which in 2023 were transported 1,527 thousand tonnes, as well as 603 thousand tonnes of ferrous metals and 394 thousand tonnes of chemical freight.

	grains, grain processing products, seeds and fruits	36,7%	2023
	oil and oil products	17,1%	2023
	coal	10,7%	2023
	timber	2,7%	2023
	mineral fertilisers	1,5%	2023



A total of 17,134 thousand passengers were transported using the broad-gauge rail lines in 2023. Compared to the previous year, the number of transported passengers increased by 9.2%.

In 2023, Latvijas Dzelzceļš continued working on the priorities set in the previous years, i.e., improving operational efficiency, reviewing business, organizational, and technological processes to increase operations efficiency and reduce costs, as well as ensuring the Group's competitiveness and sustainability in the future.

In 2023, the Company reviewed its internal processes and changed technological processes intending to achieve cost reduction and efficiency improvement. The Company also ensured compliance with the Ministry of Transport Regulation of 9 December 2022 No. 01-02/60 "Procedure for monitoring the implementation of the financial stability of the public-use railway infrastructure manager".

Since March 2022, business activity has been significantly disrupted by external factors related to the changing geopolitical situation and international economic sanctions imposed against Russia and Belarus as a result of the war in Ukraine.

Net turnover in 2023 was EUR 165,410 thousand, an increase of EUR 12,251 thousand (8%) compared to 2022.

The operating performance result for 2023 was zero. Latvijas dzelzceļš recognised in the 2023 revenues the funds required for ensuring the financial stability of the national public-use railway infrastructure manager in the amount of EUR 32,439 thousand, as provided for in the national laws and regulations, following the International Financial Reporting Standards guidelines and will claim the receivable upon approval of the Company's annual report under Section 9, Paragraph 4 of the Railway Law. In 2022, based on the obligations and duties laid down in the Multi-Annual Agreement, the financial stability payment of EUR 24,359 thousand receivable from the State budget has been recognised in revenue.

According to the Ministry of Transport Order of 12 May 2023 No. 01-03/87 "On subsidy to VAS "Latvijas dzelzceļš" for compensating the costs of the minimum access service package and maintenance of service points in 2023", the State budget funding in the amount of EUR 35,634 thousand has been allocated for the minimum access service package and access to infrastructure connecting the infrastructure with service points, including passenger stations where passenger traffic is terminated, to ensure the financial stability of the passenger transport segment to the manager of the railway infrastructure in public use, and EUR 198 thousand - for the maintenance of unused service points. In total, State budget funding (subsidy) in the amount of EUR 35,832 thousand was recognised in the profit and loss statement in 2023.

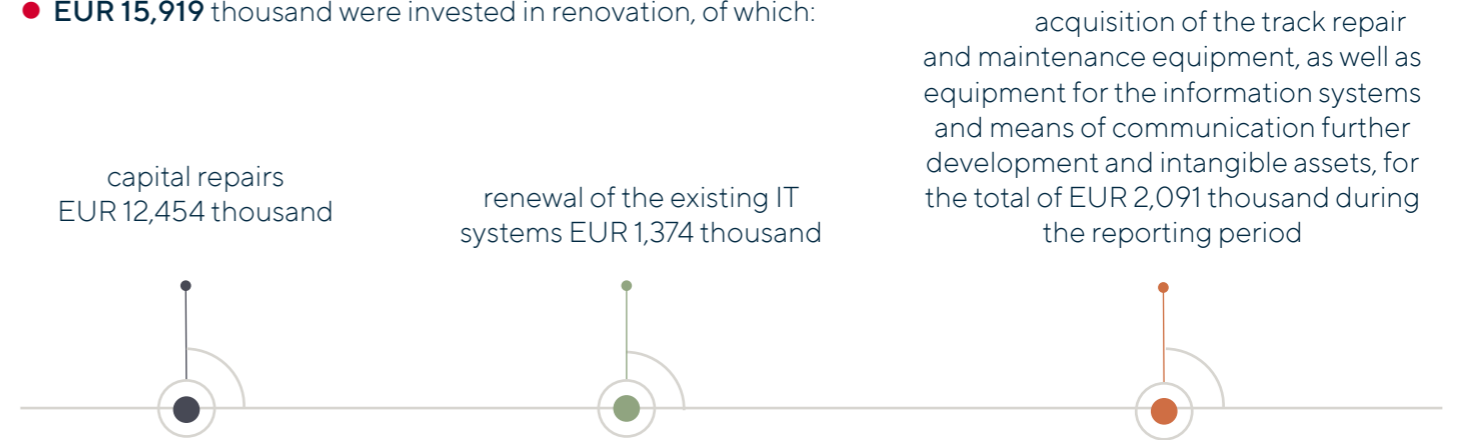
Under the Ministry of Transport Order of 29 December 2023 No. 01-03/226 "On the payment to VAS "Latvijas dzelzceļš to ensure the financial stability for 2022", a part of the financial stability payment for 2022 of EUR 10,000 thousand was allocated and transferred to the Company.

As of 31 December 2023, the Company's current liabilities exceeded its current assets by EUR 5,620 thousand. The total liquidity ratio was 0.94. Current liabilities included deferred income of EUR 18,731 thousand relating to investments in public railway infrastructure funded by EU projects and state budget. Excluding deferred income related to investments in public railway infrastructure funded by EU projects and national budget, the liquidity ratio was 1.17. As of 31 December 2023, and the beginning of 2024, there were no non-current borrowings in default.

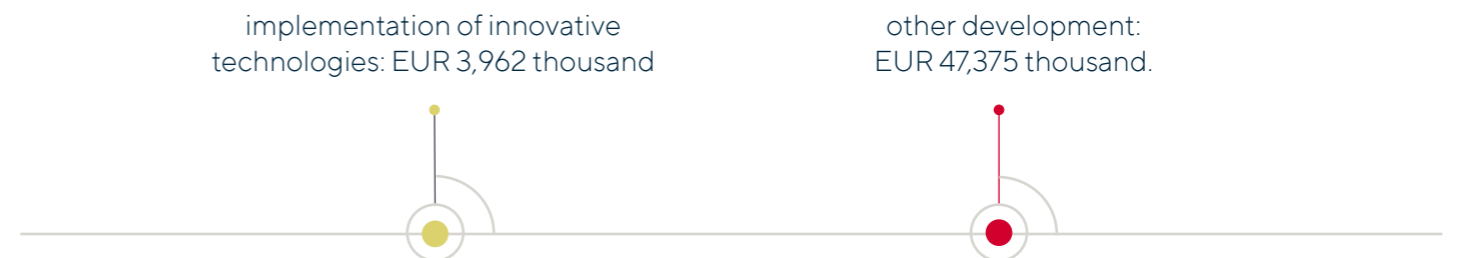
As of 31 December 2023, the total debt to total assets ratio was 0.55. The main criterion for assessing the amount of liabilities is the level of financial risk. The risk is affected by the sources and types of financing of the assets: the higher the debt ratio, the higher the financial risk. Liabilities include deferred income related to investments in public railway infrastructure funded by EU projects and state budget funds. Excluding deferred income related to the investment of EU projects and state budget funds, the liability ratio was 0.18. In assessing the financial ratios, it should be noted that co-financing received from the European Community Funds and the state budget for EU investment projects is presented in the balance sheet as a liability item "Deferred income" and recognised in the Statement of comprehensive income as "Other income" in the amount corresponding to the current year's depreciation on the created objects, related to the received financial assistance, whereas the depreciation of the objects is presented under "Depreciation, amortisation and impairment".

Despite declining rail freight volumes, the Company continued to maintain the quality of infrastructure, provided services, as well as the required safety level. In 2023, the capital expenditure of Latvijas dzelzceļš was EUR 67,256 thousand, including:

- EUR 15,919 thousand were invested in renovation, of which:



- EUR 51,337 thousand invested in infrastructure development, of which



Unfinished construction includes the cost of materials purchased for investment projects of EUR 156 thousand.



3. Objectives and future development

Latvian Railways strategy and action plan were accepted by the Board Decision of 5 July 2021 No. VL-34/240 and approved by the Council Decision of 14 July 2021 No. PA1.2./8-6.

The overall strategic goal of Latvian Railways has been approved by the Cabinet of Ministers Order of 6 June 2021 No. 421 in the following wording: "To ensure efficient, safe and sustainable management of railway infrastructure, offering competitive logistics, repair and maintenance of railway vehicles, security services for strategically important objects while promoting environmentally friendly development of rail transportation".

The Infrastructure Development Concept for 2021-2035 created in 2021, approved by the Board Decision No. VL-9/95 dated 01.03.2021 and accepted for information by the Council Decision No. PA1.2.13-13 of 18.03.2021, provides an overview of the current infrastructure and related aspects of the Company's operations and outlines the strategic development vision and main directions of Latvian Railways, which are directly reflected in the medium-term operational strategy of Latvian Railways, in the infrastructure development and modernization projects and in other documents.

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, the project "Modernisation of Riga railway junction Sarkandaugava - Mangaļi - Ziemeļblāzma" has been completed in full, achieving the original objectives of the project and completing the construction works on 15 December 2023.

The geopolitical situation, coordination of technical solutions with third parties and other unforeseeable circumstances had 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 contracts concluded for these projects were extended and the projects are staged between the two programming periods of the EU funds, i.e., the 2014-2020 and 2021-2027 programming periods, in accordance with the 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 22 December 2023, under Paragraph 25.³ of Cabinet Regulation No. 404 of 21 June 2016, was submitted request to the Central Finance and Contracting Agency (CFCA) for amendments to the CFCA contract for both projects, to fully complete the project activities and achieve the planned project performance indicators.

In accordance with the Latvian Railways Board Decision of 31.10.2023 No. VL-1.6/347-2023 the Council Decision of 09.11.2023 No. PA 1.2/14-10, the project "Installation of fencing and pedestrian crossings at railway infrastructure objects" has been terminated and the contract with the constructor has been unilaterally terminated by Latvian Railways as the contractor with whom the contract for construction works was concluded is unable to fulfil its obligations and perform the construction works.

Active work is also underway 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 co-financed by the Connecting Europe Facility and is scheduled for completion in 2024. The project aims to ensure a minimum mandatory amount of information and exchange between railway undertakings (railway carriers, infrastructure managers, 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. Several preparations have been done for modernization of the electrified network of Riga city and suburban railways project, which is planned to be implemented within the framework of the Recovery and Resilience Instrument. 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 Zaslauks - 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.

As part of the open tender "Modernisation and development of the railway electrified network: construction", on 25 September 2023, three financial bids were received, and the assessment of the bids has now started.

The project application "Modernisation of the railway network" was submitted on 30 November 2023 for the selection of project proposals under the Recovery Mechanism "Measure 1.1.1.1.i of the Specific Support Objective Competitive rail passenger transport in the overall public transport system of Riga City Measure 1.1.1.1.i.2 Competitive rail passenger transport in the overall public transport system of Riga City". 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, which is provided in the form of a grant.

Recognising that attracting a qualified workforce in the coming years will be challenging, Latvian Railways not only develops the further education opportunities offered by the Company's Training Centre, but also cooperates with the Transport Institute of the Faculty of Construction and Mechanical Engineering of RTU, Riga State Technical School, Daugavpils Technology and Tourism Technical School in the implementation of training and study programmes in the field of railways. Completion of training and study programmes will allow not only to develop technological capacity in the Company and the Group, but in the future will provide the Group with the necessary highly qualified specialists.



4. Research and development activities

In 2023, the Company's research and development (R&D) expenditure was EUR 5,000 thousand, of which internal R&D expenditure was EUR 4,851 thousand, expenditure on R&D activities commissioned by other institutions, enterprises, organisations was EUR 149 thousand. In 2022, the total R&D expenditure was EUR 1,342 thousand, of which internal R&D expenditure was EUR 1,327 thousand, whereas expenditure on R&D activities commissioned from other institutions, companies and organisations was EUR 15 thousand.

5. Non-financial statement

Latvijas dzelzceļš is one of the largest employers in the country; its industry and scale of the activity results in a situation that the Company has both a direct and indirect impact on many people throughout Latvia. First and foremost, we speak about 3,945 employees of VAS "Latvijas dzelzceļš" who work for the Company and are thus able to support their families, pay taxes, and otherwise contribute to the national economy. In addition to the large number of employees, the activity of Latvijas dzelzceļš impacts everyone who uses rail services and lives near the rail infrastructure.

Railway operations are also closely related to environmental factors and the impact of the industry on the quality of life of the population. One of the topical issues is the noise produced by rail transport, especially during freight transportation, and its impact on the health and well-being of people living near the railway. Aiming to reduce the impact of noise and vibrations, the action plan for noise reduction by 2023 was developed by VAS "Latvijas dzelzceļš" and is currently being implemented, defining the tasks and targets for noise abatement on railway lines with a traffic volume of more than 30,000 trains per year. In 2023, based on the strategic noise maps approved by the Ministry of Transport in 2022, the Company developed an action plan for noise reduction for the period 2024–2028.

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

Latvijas dzelzceļš always observes the principles of equality in its relations with employees – no person of a particular race, colour, gender, age, religious, political or other beliefs, or on grounds of national or social origin, property, based on marital status, sexual orientation or any other circumstance is given preference in employment legal relationships. In December 2023, Latvijas dzelzceļš employed 1,363 women (34.8%) of the total workforce and 2,548 men (65.2%) of the total workforce. The relatively high count of women employed by the Company in what has traditionally been a strongly men-dominated sector demonstrates that the Company does not discriminate against its employees based on their gender, thereby reducing the stereotype of rail as a men-only industry.

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

Latvijas dzelzceļš Group has implemented the Personnel management and remuneration policy, which is also binding on the Group's 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.

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

The Code of Ethics of Latvijas dzelzceļš Group summarises the best commercial practices and general principles of professional ethics and employee conduct to be followed by the Group's 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 Group's Anti-fraud policy has been put in place, which is closely related to the national regulatory framework, i.e. Cabinet Regulation No. 630 "Regulation on the 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 people injured and killed in train collisions. The Group's Traffic safety policy is therefore one of the key elements of the Company's safety management system. The policy aims to establish common principles and procedures for traffic safety management, taking into account the requirements of traffic safety laws and regulations, to prevent the occurrence of unacceptable risks. In addition to improving infrastructure safety, one of the ways is informing and educating the public regarding safe behaviour near the railway infrastructure and when crossing the tracks.

Every year, VAS "Latvijas dzelzceļš" organises safety campaigns to inform and educate the public about safety near the railway. In 2023, representatives of Latvijas dzelzceļš also conducted safety lessons in schools and pre-schools, where children are taught in an age-appropriate manner how to behave properly and safely around the railway and on the train, and learn many interesting things about railways.

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 2023. 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 development, performance, and financial position of Latvijas dzelzceļš is provided in the preceding paragraphs of the Management Report and in the notes to the annual report.

The fulfilment of the non-financial targets set in the 2023 budget of VAS Latvijas dzelzceļš is as follows:

Strategic directions	Performance indicators	Budget 2023	Actual 2023
Governance	Operating costs of railway infrastructure per km of the main track, thous. EUR	76,1	65,9
	Extended length of main tracks, km	2,213.1	2,216.5
	Number of serious accidents per million train-km	1,1	0,68
Mobility	Average speed of a passenger train segment, km/h	50,0	55,2
	Share of rail passenger transport in total public transport, %	9,0%	9,1%
Commercial activities	Market share of LDZ CARGO in the Baltics, %	24,5%	32,7%
	Freight transported by rail using the LDz infrastructure, million tonnes	15,9	15,6
Sustainability and human capital	Sustainability Index, level	Gold	Gold
	Employee satisfaction rating, %	75,0%	74,0%



6. Information on the key risks in the corporate social responsibility area

Road safety risks

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

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

Under the risk management policy of Latvijas dzelzceļš Group, irrespective of the assessment of individual risks and control measures taken, traffic safety threats are defined as a priority risk in the Group's decision-making and traffic safety risk mitigation and control measures are implemented as a priority.

Environmental risks

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

- The Group has implemented a certified environmental and energy management system (continuous analysis of significant areas of energy consumption and environmental impact), under the requirements of the standards ISO 50 001:2018 and ISO14 001:2015.
- Regular environmental monitoring is performed (soil and groundwater, sewage and rainwater, noise level and air pollutant emissions), surveying of sites contaminated with petroleum products, including historically contaminated sites, investigations and remediation measures are taken.
- Employees regularly get training to improve and test their knowledge and to keep them updated of the latest developments in the Company in the areas of environmental and energy management.
- Civil defence and disaster prevention trainings are organised jointly with other government agencies.
- The Group promotes an environmentally friendly mindset among its employees, thus making an indirect contribution to environmental protection that goes beyond its business activities.

Workplace risk

In ensuring the primary activities of the Group companies, the works are carried out near the tracks, i.e., the employees work in hazardous conditions, and each of them must strictly comply with all occupational health and safety requirements, including the wearing of high visibility protective clothing and exerting constant vigilance over the movement of the rolling stock within the defined work area. Risk management is ensured following the Occupational safety policy of Latvijas dzelzceļš Group. The Group companies maintain and improve their

occupational health and safety systems and regularly assess workplace risks, and regular workplace risk assessments are carried out for all positions and workplaces within the Company.

In ensuring occupational safety and health, the focus is on preventive measures to avoid (prevent) workplace risks that endanger the safety of employees and harm their health. In practice, when training employees at the Latvijas dzelzceļš Training Centre according to approved programmes, the "Model Content and Structure of Occupational Safety Instructions" (Annex 2 to Cabinet of Minister Regulation No. 749 of 10.08.2010) is used to develop occupational safety instructions, which include the safe process of starting, performing and finishing work, and occupational safety requirements in emergencies.

Risks of fraud, corruption, and conflict of interest

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

The Code of Ethics of Latvijas dzelzceļš lays down the general principles of professional ethics and employee conduct. By signing the agreement, the Group's business partners confirm that they have familiarised themselves with the General principles of business conduct for the Group's business partners, published on the Group's website www.ldz.lv, comply with them, and commit to comply strictly with them in the future as well as ensure that their employees and subcontractors involved in the performance of the contract also comply with them.

Compliance risks

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

Risk to reputation

Latvijas dzelzceļš Group companies take measures to prevent and mitigate risks to reputation arising from external events caused intentionally or unintentionally, internal communication errors, or inappropriate behaviour by employees. To manage the risk, potential communication issues and communication risks are identified promptly through routine processes; there is continuous monitoring of the media, the public environment, and public opinion, communication about the Group's activities and steps are taken to promote public awareness and understanding of the Group's activities and its current development.



7. Foreign branches and representative offices

The Company has no foreign branches or representative offices.

The Company's representative office in the Russian capital, Moscow, which operated since 2012, was closed down in February 2023.

The Company's representative office in Minsk, the capital of Belarus, which operated since 2017, was closed down in December 2023.

8. Geopolitical situation and its impact on the Company's ability to continue as a going concern

External factors related to the geopolitical situation, the war in Ukraine, and the international economic sanctions imposed on Russia and Belarus, as well as Russia's inclusion in the list of low-tax or tax-free countries and territories, suggest that the situation regarding freight volumes will not improve significantly in the future. According to the Company's estimates, the impact of the Russian grain import ban on the Company's revenue will not be significant.

Following Russia's invasion of Ukraine on 24 February 2022, Russia and Belarus are subject to extensive economic and political sanctions. The sanctions had a significant impact on the Company's operations, as it was necessary to review the internal sanctions monitoring processes, as well as to direct additional resources to carry out both cooperation partners and transported cargo inspections.

Given the Company's cooperation with its business partners in Russia and Belarus, as well as the nature of its activities, the war in Ukraine undoubtedly left and will continue to have an impact on the activities of the Company both in 2024 and beyond. The restrictions enacted to date have contributed to the cargo turnover decline and it is difficult to predict the possible impact of additional sanctions on the Company's activities in the future. Taking into account the risks associated with sanctions, the following measures have been taken:

1. A separate Sanctions Division and the Sanctions Commission responsible for the review of sanctions have been established in the Company, strengthening the exchange of information on sanctions inspections within the Group.
2. The Group has developed and implemented the Latvijas dzelzceļš Group Sanctions Policy, ensuring uniformity in the application of sanctions checks within the Group.
3. In assessing the risks related to significantly expanded lists of sectoral sanctions, the Company strengthened freight inspection procedures, intensifying cargo types evaluation and their compliance with the established sectoral sanctions.
4. All persons included in the sanctions lists are identified in the information system (IS) Sanctions, maintained by the Company, which ensures daily automatic verification of all clients and cooperation partners for matching with the lists of sanctioned persons. The IS Sanctions lists are updated daily by automatically linking to the official websites that maintain information on sanctions against the Republic of Latvia, the European Union, the United Nations, and OFAC.
5. In 2024, work will continue to upgrade IS Sanctions system, as well as on strengthening the Company'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 will continue to routinely monitor the developments, as well as their possible impact on the Company's operations.

However, despite the complicated situation, Management of Latvijas dzelzceļš is confident that the going concern principle is applicable to the preparation of these financial statements, which is based on the initiated implementation of the Group's new business model, the execution of the crisis plan, and review of organizational and technological processes, which has resulted and will continue to result in cost reductions, receipt of state funding for 2022 under the Multi-Annual Agreement "On planning and financing of the maintenance and development of the public use railway infrastructure managed by VAS Latvijas dzelzceļš", which had been concluded between VAS Latvijas dzelzceļš and the Ministry of Transport, and receipt of the necessary state funding for 2023 under Section 9, Paragraph 4 of the Railway Law. In addition, in 2024 Management will continue implementing the Group's new business model and the Company's medium-term business strategy until 2025. The Company works with the Ministry of Transport to prepare a new contract to ensure financial stability of Latvijas dzelzceļš, as the multi-annual agreement concluded in 2018 expired on 31 December 2022.

The Company's primary task is to ensure the managing of the national public-use railway infrastructure and to provide safe, high-quality, and efficient railway and logistics services in the interests of the Latvian state and economy.

In 2023, 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". These principles require recognition of a government grant when there is reasonable assurance that the conditions attached to the receipt of the grant are met. In addition, grants to cover costs to be recognised in the period in which the costs were incurred, provided that there is reasonable assurance that the grant will be received in the future.

The criteria for the Company to receive a financial stability payment are failure to meet the financial stability conditions set out in Section 9, Paragraph 4 of the Railway Law. Given that the Company did not meet the conditions for financial stability in 2023 under Section 9, Paragraph 4 of the Railway Law, the criteria for financial stability payments under Section 9, Paragraph 4 of the Railway Law were accordingly met.

With a view to clearly present the total recognised financial stability payments in the financial statements, the columns "2023 performance before financial stability payments" and "2022 performance before financial stability payments" have been added in the Company's Statement of comprehensive income. These disclosures are not required by IFRS Accounting Standards adopted in the European Union (EU); they are provided as a supplementary indicator to disclose the Company's profit or loss information in the financial statements to receive state funding to compensate for losses under Section 9, Paragraph 4 of the Railway Law to ensure the financial stability of VAS "Latvijas dzelzceļš".



Although the Company is confident about the receipt of financial resources, there is uncertainty as to time of receipt of additional financial resources. This uncertainty applies both to the full compensation for the costs of maintaining and renewing the railway infrastructure in the provision of public transport services throughout 2024 and to the funding for ensuring the financial stability of Latvijas dzelzceļš.

In 2023, the Company was granted a credit line for short-term cash flow financing in the amount of EUR 5,000 thousand from the Latvian branch of AS "Luminor Bank" in case of delays in payments from the state budget to ensure financial stability. In 2023, there was no need to use the credit line.

9. Events after the date of preparation of the annual report for 2023

There have been no events since the end of the reporting year that have had a material impact on the information presented in the 2023 financial statements.

10. Financial result

In the reporting period the Company's financial result is zero, as Latvijas dzelzceļš has recognised state funding to ensure the financial stability of the national public-use railway infrastructure manager under the applicable laws and regulations.

11. Statement on the responsibility of the Board

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

The financial statements of VAS "Latvijas dzelzceļš" on pages 11 to 45 have been prepared based on accounting records and supporting documents and give a true and fair view of the financial position of the Company as at 31 December 2023, its performance, and cash flows for the year 2023.

The above financial statements have been prepared under IFRS Accounting Standards as adopted by the EU, on a going concern basis. The judgements and estimates made by Management in the preparation of the Company's financial statements have been prudent and reasonable.

The Company's Management is responsible for maintaining proper accounting records, safeguarding the Company's assets and detecting and preventing fraud and other irregularities within the Company. Management is responsible for compliance with the statutory legal requirements of the Republic of Latvia.

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R. Pļavnieks
Chairman of the Board

V. Balode-Andrūsa
Member of the Board



Financial statements

Statement of comprehensive income for 2023

(EUR)

	Note	2023 performance before financial stability payments*	2023	2022 performance before financial stability payments *	2022
Revenue	4	132 970 445	165 409 602	128 799 299	153 158 297
Other income	5	22 833 041	22 833 041	21 907 521	21 907 521
Total operating income		155 803 486	188 242 643	150 706 820	175 065 818
Cost of goods, materials, and services	6	(60 208 675)	(60 208 675)	(49 220 893)	(49 220 893)
Personnel expenses	7	(86 223 787)	(86 223 787)	(78 614 069)	(78 614 069)
Depreciation, amortisation, and impairment	8	(45 869 449)	(45 869 449)	(51 088 788)	(51 088 788)
Other expenses	9	(1 436 331)	(1 436 331)	(2 351 073)	(2 351 073)
Total operating expenses		(193 738 242)	(193 738 242)	(181 274 823)	(181 274 823)
Operating loss		(37 934 756)	(5 495 599)	(30 568 003)	(6 209 005)
Income from investments in affiliated undertakings	10	9 089 691	9 089 691	4 545 819	4 545 819
Gain from reversal of previously recognised impairment of investments	16	-	-	3 087 425	3 087 425
Finance income	11	917 562	917 562	372 852	372 852
Finance costs	11	(4 511 654)	(4 511 654)	(1 797 091)	(1 797 091)
Loss before corporate income tax		(32 439 157)	-	(24 358 998)	-
Loss for the reporting year		(32 439 157)	-	(24 358 998)	-
Loss for the reporting year and comprehensive income attributable to the shareholder		(32 439 157)	-	(24 358 998)	-

* See Note 2.15 for the explanation of the presentation of additional non-IFRS indicators. The Notes on pages 15 to 45 form an integral part of these financial statements.

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V. Balode-Andrūsa
Member of the Board

T. Labzova-Ceicāne
The annual report was prepared by VAS "Latvijas dzelzceļš" Financial Department,
Deputy Finance Director for Economic Matters



Statement of financial position as at 31 December 2023

Assets	Note	(EUR)	
		31.12.2023.	31.12.2022.
Long-term investments			
Property, plant and equipment	12	538 600 782	518 311 358
Right-of-use assets	13	3 244 373	5 189 116
Intangible assets	14	3 482 898	2 674 717
Advance payments for property, plant and equipment		25 854 762	29 782 267
Investments in the share capital of subsidiaries	15, 16, 17	110 816 648	110 816 648
Loans to affiliated undertakings	19, 38	11 740 401	17 357 499
Other long-term financial investments	20	73 982	73 982
Total long-term investments		693 813 846	684 205 587
Current assets			
Inventories	21	4 087 561	3 848 088
Trade and other receivables	22	5 826 222	7 046 165
Loans to affiliated undertakings	19, 38	4 207 731	4 158 161
Receivables from affiliated undertakings	38	4 396 363	3 857 869
Accrued income	4	46 798 155	24 358 998
Cash and cash equivalents	23	25 505 026	59 016 340
Total current assets		90 821 058	102 285 621
Total assets		784 634 904	786 491 208

Equity and liabilities	Note	(EUR)	
		31.12.2023.	31.12.2022.
Equity and liabilities			
Equity			
Share capital	24	327 621 636	327 621 636
Reserves and retained earnings		23 613 416	23 613 416
Total equity		351 235 052	351 235 052
Liabilities			
Non-current liabilities			
Provisions	25	283 212	262 650
Borrowings from credit institutions	26	53 988 276	66 309 363
Trade payables		767 168	1 356 010
Taxes and national social insurance mandatory contributions	28	5 081 936	6 824 314
Lease liabilities		1 989 343	3 173 540
Deferred income	27	274 848 436	265 444 269
Total non-current liabilities		336 958 371	343 370 146
Current liabilities			
Borrowings from credit institutions	26	32 321 087	24 247 388
Provisions	25	1 216 805	155 986
Trade and other payables		23 174 697	26 258 298
Amounts owed to affiliated undertakings	38	3 144 355	2 596 083
Taxes and national social insurance mandatory contributions	28	16 422 149	16 798 318
Lease liabilities		1 294 912	2 084 739
Deferred income	27	18 867 476	19 745 198
Total current liabilities		96 441 481	91 886 010
Total liabilities		433 399 852	435 256 156
Total equity and liabilities		784 634 904	786 491 208

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The Notes on pages 15 to 45 form an integral part of these financial statements.

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Statement of changes in equity

	Share capital	Reserves	Retained earnings	(EUR) Equity, total
For 2022				
01.01.2022.	289 142 391	38 479 245	23 613 416	351 235 052
Loss and comprehensive income for the reporting year	-	-	-	-
Increase in share capital	38 479 245	(38 479 245)	-	-
31.12.2022.	327 621 636	-	23 613 416	351 235 052
For 2023				
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

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			(EUR)
Statement of cash flows for 2023 (indirect method)	Note	2023	2022
Cash flow from operating activity			
Profit before corporate income tax		-	-
Adjustments:			
Depreciation of property, plant and equipment and other impairment adjustments		26 641 506	32 900 501
Amortisation of intangible assets, and other impairment adjustments	14	1 022 377	503 877
Foreign currency exchange rate fluctuation gains	5	(144 555)	(28 278)
Income from equity investments in associated undertakings	10	(9 089 691)	(4 545 819)
Gain from the reversal of investment impairment adjustments, net		-	(3 077 299)
Other interest and similar income	11	(917 562)	(372 852)
Interest expense and similar charges	11	4 511 654	1 797 091
Profit before working capital adjustments		22 023 729	27 177 221
Adjustments:			
(Increase) / decrease in prepayments and receivables		(21 863 614)	13 587 442
(Increase) / decrease in inventories		(209 510)	1 136 586
(Decrease) / increase in trade and other payables		(7 080 949)	3 285 264
Gross cash flows from operating activity		(7 130 344)	45 186 513
Interest paid		(4 376 097)	(1 676 065)
Net cash flow from operating activity		(11 506 441)	43 510 448
Cash flow of investing activity			
Cash received on liquidation of affiliated undertakings		-	4 884 491
Acquisition of property, plant and equipment and intangible assets		(60 705 677)	(37 442 007)
Proceeds from the sale of property, plant and equipment and intangible assets		687 997	1 650 840
Subsidies or grants received	27	28 139 831	30 098 034
Proceeds from repaid loans	19	5 718 972	8 026 408
Interest received		876 094	301 410
Dividends received	10	9 089 691	4 545 819
Net cash flow of investing activity		(16 193 092)	12 064 995
Cash flow of financing activity			
Borrowings received	26	20 000 000	-
Borrowings repaid	26	(24 247 388)	(30 058 772)
Lease liabilities		(1 604 886)	(2 647 069)
Net cash flow of financing activity		(5 852 274)	(32 705 841)
Gain on foreign exchange rate fluctuations		40 493	48 479
Changes in cash and cash equivalents during the financial year		(33 511 314)	22 918 081
Cash and cash equivalents balance at the beginning of the financial year		59 016 340	36 098 259
Cash and cash equivalents balance at the end of the financial year	23	25 505 026	59 016 340

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Member of the Board

T.Labzova-Ceicāne
The annual report was prepared by VAS "Latvijas dzelzceļš" Financial Department, Deputy Finance Director for Economic Matters

The Notes on pages 15 to 45 form an integral part of these financial statements.



Notes to the financial statements

1. General information about the Company

Name of the company	"Latvijas dzelzceļš"
Legal status of the company	State Joint Stock Company
Registered office	Emīlijas Benjamiņas iela 3, Rīga, LV-1547
Uniform registration number	40003032065
Date of registration in the Register of Enterprises	01.10.1991.
Date of registration in the Commercial Register	10.09.2004.
Place of registration	Rīga
Date of issue of the certificate of registration	10.09.2004.
Type of principal activity (NACE Rev. 2)	42.12 Construction of railways and underground railways 52.21 Service activities incidental to land transport
Shareholder	Republic of Latvia (100%)
Holder of the capital shares	Ministry of Transport of the Republic of Latvia Emīlijas Benjamiņas iela 3, Rīga, LV-1743
Supervisory body	Council of the Company
Council	Andris LIEPIŅŠ, Deputy Chairman of the Council Reinis CEPLIS, member of the Council Jānis LANGE, Chairman of the Council until 21.11.2023 Andris MALDUPS, member of the Council until 13.01.2023 Juris KAĻEŅUKS, member of the Council from 02.02.2022 to 13.01.2023
Board	Rinalds PĻAVNIEKS, Chairman of the Board from 10.02.2023, member of the Board until 09.02.2023 Vīta BALODE-ANDRŪSA, member of the Board Māris KLEINBERGS, Chairman of the Board until 09.02.2023.
Name, address, and the sworn auditor in charge	SIA "PricewaterhouseCoopers" Uniform reg. No. 40003142793 Latvian Association of Certified Auditors (LACA) Commercial Company Licence No 5 Kr.Valdemāra iela 21-21 Rīga, LV-1010 Latvia Sworn auditor in charge Jana Smirnova Certificate No.188
Reporting year	1 January 2023 – 31 December 2023



2. Accounting and measurement principles

The financial statements present the financial position of Latvijas dzelzceļš as a separate entity. The financial position of the Group (VAS "Latvijas dzelzceļš" and its subsidiaries) is presented in the consolidated financial statements.

The financial statements cover the period from 1 January to 31 December 2023. The financial statements are approved by the general meeting of shareholders convened by the Board of Latvijas dzelzceļš after receipt of the auditor's opinion and the Council's report.

2.1. 2.1. Accounting and measurement principles

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting standards") as adopted in the European Union ("EU"). Because of the EU adoption process, this note also reflects standards and interpretations that have not been adopted for use in the EU, as these standards and interpretations, if adopted, may have an impact on the Company's financial statements in future periods. The financial statements have been prepared under the historical cost convention and the going concern principle.

IFRS Accounting standards require that the Company's Management make assumptions and judgements in preparing financial statements that affect the reported amounts of assets and liabilities and disclosures that are to be made at the reporting date and the revenue and expenses recognised in the reporting period. Actual results may differ from these estimates. Areas that require significant or complex assumptions, or where the assumptions and estimates made are significant in the context of the financial statements, are disclosed in Note 3.

During the reporting year, no IFRS Accounting standards, amendments thereto, and amendments to interpretations adopted by the EU that have had a material impact on the Company's operations, became effective.

The following amendments or interpretations to standards that could have an impact on the Company's financial statements and whose impact is currently being assessed by the Company's Management, but whose initial estimates indicate that it will not be material, will be effective on or after 1 January 2024:

- Amendments to IFRS 16, Leases: Lease liability in a sale and leaseback (effective for annual periods beginning on or after 1 January 2024).
- Amendments to IAS 1 - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2024).
- Amendments to IAS 7 - Statement of cash flows and IFRS 7 Financial instruments: Disclosure: Supplier finance arrangements (valid for annual periods starting on or after 1 January 2024; not yet adopted in the EU).
- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates (effective for annual periods beginning on or after 1 January 2024, 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 2024 and does not expect them to have a material impact on the Company's financial statements.

2.2. Foreign currency revaluation

Functional and presentation currency

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

Transactions and balances in foreign currencies

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

Foreign exchange rates

Foreign currency	Currency units per EUR 1 at 31.12.2023	Currency units per EUR 1 at 31.12.2022
USD	1.10500	1.06660
CHF	0.92600	0.98470

2.3. Intangible assets

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

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

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

2.4. Property, plant and equipment

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

Cost includes expenses directly attributable to the purchase 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 acquiring computer software that is closely related to the functionality of the equipment and cannot be separated from it, is capitalised as part of that equipment.



The Company capitalises property, plant and equipment with cost exceeding EUR 500 and a useful life exceeding one year. Investments in leased assets are capitalised and reflected 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 the Company and if the cost of the item can be measured reliably. Other current repairs and maintenance costs of property, plant and equipment are recognised in the Statement of comprehensive income in the period in which they are incurred.

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

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

Depreciation

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

Investments in 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.

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

Property, plant and equipment	Useful life
Buildings and structures	10-130 years
Railway tracks	10-90 years
Railway rolling stock - wagons for technological purposes	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 acquisition or are in the process of being installed are classified as "assets under construction". The cost of unfinished construction is increased during the period by borrowing costs and other direct costs related to the asset until its commissioning. The cost of the constructed 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.

2.5. Impairment of tangible and intangible assets

All of the Company's tangible and intangible assets have a finite useful life (except for land and museum stock). The value of depreciable assets is reviewed whenever events and circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the difference between an asset's carrying amount and its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use. To determine impairment, assets are grouped 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 recoverable amount. An impairment loss is only reversed to the extent that the carrying amount of the asset in question does not exceed its carrying amount less the depreciation

2.6. Financial instruments

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

The classification of debt instruments depends on the Company's business model for managing financial assets and whether the contractual cash flows consist solely of principal and interest (SPPI). If a debt instrument is held to collect cash flows, it may be carried at amortised cost if it meets the requirements for the SPPI. Financial assets whose cash flows do not meet the requirements of the SPPI are measured at fair value through profit or loss (FVTPL) (e.g., 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, the change in fair value shall be recognised in profit or loss.



Recognition and derecognition

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

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

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

Measurement

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

Financial assets at fair value through profit or loss

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

Dividends on investments are recognised in the statement of comprehensive income when the Company 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, receivables 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 are readily convertible to cash when needed 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.

The Company 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 projections.

Related party receivables as well as loans to related parties are categorised into a separate group, for which ECL is calculated taking into account 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.

The impairment allowance is included in a separate allowance account and the 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, trade and other payables, and payables to related companies.

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



Borrowings

Borrowings are initially recognised at fair value, net of borrowing costs incurred. In subsequent periods, borrowings are measured at amortised cost using the effective interest method. The difference between the amount of proceeds, less borrowing costs, and the redemption value of the borrowing is gradually recognised in the Statement of comprehensive income on a straight-line basis, using the borrowing's effective interest rate. This difference is recognised as finance expenses.

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

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and recognised in the balance sheet at net amounts when there is a 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, provisions are created for the impairment of obsolete, slow-moving or damaged inventories. For inventories without movement over one year, the provisions are recognised for the full amount. The change of the provision is recognised in the Statement of comprehensive income.

2.8. Share capital and payments for the use of state-owned capital shares (dividends)

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

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

2.9. Other reserves

A portion of the Company's profit after tax may be transferred to the reserve capital by a resolution of the Company's general shareholder meeting. For this purpose, "Other reserves" have been set up under equity. The appropriation and distribution of other reserves is the competence of the general shareholder meeting.

2.10. Accrued unused annual leave expenses

The accrued unused annual leave expenses are calculated for each employee by multiplying the number of days of unused leave at the end of the accounting year by the average daily salary during the last six months of the reporting year as increased by the employer's share of national social insurance mandatory 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 when a reliable estimate can be made of the amount of the obligation.

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 cost of provisions is recognised in the Statement of comprehensive income, net of the recovered amounts.

2.12. Corporate income tax

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 per cent on the calculated taxable amount, divided by 0.8 before the application of the tax rate. Corporate income tax calculated on distributions of dividends is presented separately in the Statement of comprehensive income and otherwise as an expense in other operating activities. 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 the performance of the operating activity. Revenue is measured at the transaction price specified in the contract. The transaction price is the amount that the Company expects to receive upon transfer of control for goods or services, excluding amounts collected on behalf of third parties (e.g., value added tax). The transaction price is reduced by the discounts granted or other types of benefits that are given 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 the Company does not make adjustments to reflect changes in the value of money over time. In addition, there is no variable remuneration in the settlement.

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

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

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

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

The Company receives state budget grants to fully cover the 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 in connection with the use of passenger stations and stops. The Company provides the following services at passenger stations: ticket counters, passenger notification systems, and facilities for passenger use. Revenue (excluding VAT) is recognised in the period in which the services are rendered, up to the amount of funding received, in accordance with IAS 20.

Ancillary services of the infrastructure manager, including service point services – freight wagon sorting and assembly services (handling of freight wagons with or without train formation), wagon maintenance and inspection, running siding repairs, wagon storage services, etc. Revenue is recognised in the period when the services are provided.

Electricity distribution and sale services – the Company provides electricity distribution and trading services to natural and legal persons, including subsidiaries. The costs of electricity distribution (traction substations and overhead power lines) for the traction of passenger trains are included in the charge for the use of services used by the public-use railway infrastructure and are not included in this service. Latvijas Dzelzceļš provides electricity trading services to electricity consumers by fulfilling the obligations stipulated by the “Electricity Market Law”, the Law “On Regulators of Public Utilities” and Cabinet Regulation No.50 “Regulation on Trading and Use of Electricity” (Cabinet Regulation No. 635 of 10.11.2023). Latvijas dzelzceļš operates as a primary service provider and therefore revenue and costs are recognised on a gross basis. 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 the submission of import declarations, performance of a customs procedure – transit, and temporary storage. Under the agreement between Latvijas dzelzceļš and SIA “LDZ CARGO”, 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 messaging services, leased line services, and access to the electronic communications network infrastructure services. Revenue is recognised after actual use of the network in the reporting period.

Information technology services – services relating to freight and passenger transport information systems, train traffic, and business support, control, and management information systems. Revenue is recognised in the period when the services are rendered.

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

Other services – management services to the subsidiaries, infrastructure manager-specific services, and various other small-scale services to legal and natural persons. Revenue is recognised in the period in which the services are provided.

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

Leases – The Company primarily leases buildings, structures, land, and other property, plant and equipment that are not necessary for the operation of its business, 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 (in accordance with IFRS 9). Interest income on cash and cash equivalents is classified as finance income.

Income from fines

Under the prudence principle, contractual penalties, including late payment interest, are recognised as revenue only upon receipt.

Dividend income

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



2.14. Leases

Classification

At the inception of a contract, the Company assesses whether the contract is a lease or contains a lease. A contract is a lease or contains a lease if the contract conveys the right to control the use of an identifiable asset for a period of 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;
- The Company has the right to all economic benefits from the use of the identifiable asset for its useful life;
- The Company has the right to direct the use of the identifiable asset. The Company 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, the Company 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 the Company intends to use the asset in a predetermined manner on how and for what purpose the asset will be used.

For a contract that includes a lease component or multiple lease components, the Company attributes to each lease component its relative individual cost at initial measurement or at remeasurement.

Lessee's accounting

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

- the initial measurement amount of the lease liabilities;
- any lease payments made on or before the 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 periodically reduced by an impairment loss, if any, and adjusted for revaluation of lease liabilities.

Assets and liabilities arising from leases are measured at the present value of the remaining lease payments at the initial application date, discounted at the Company's benchmark interest rate. Lease liabilities include the present value of the following lease payments:

- fixed lease payments (including in-substance fixed lease payments) less lease incentives;
- variable lease payments that depend on an index or rate;
- payments to be made by the lessee under residual value guarantees;
- the exercise price of a purchase option that the lessee is reasonably certain to exercise, and
- penalties for terminating the lease where the lease term reflects the lessee exercising an option to terminate the lease..

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

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

Accounting for sublease transactions (the Company is the lessor)

Where the Company is the lessor under the contract, but a part of the leased assets is leased further to a third party, results in the sublease transaction. Each sublease transaction is assessed for its compliance with the definition of a finance or operating lease in relation to the right-of-use asset. Accounting depends on the type of the sublease, whether the Company is the lessor under the terms of an operating lease or the Company is the lessor under the terms of a finance lease. If the sublease is a finance lease, it is accounted for separately as a lease receivable. Offsetting is not performed.

Accounting for sublease transactions:

- The Company, as an intermediate lessor, reduces the right-of-use asset by creating the finance lease receivable by respective amount without recognising the lease income from the sublease, but calculates interest income on the finance lease receivable;
- During the term of the sublease, the Company, as an intermediate lessor, recognises depreciation expense on the right-of-use asset in the amount related to the not subleased right-of-use asset, 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 is recognised at fair value if there is reasonable certainty that the funds will be received, and it can be reasonably argued that the Company will be able to meet all the conditions attached to the receipt of these funds.

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

Under Section 9, Paragraph 4 of the Railway Law (in 2023) and under Railway Law Section 101 part 2 regarding the multi-annual agreement (in 2022), the Company has included columns "2023 performance before financial stability payments" and "2022 performance before financial stability payments" in the Statement of comprehensive income. Although not required under IFRS, this non-IFRS indicator has been presented in the financial statements to provide readers with a fair view of the Company's financial position had the financial stability payments not been received.

2.16. Related parties

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

2.17. Events after the balance sheet date

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

2.18. Employee benefits

Social insurance and pension plan contributions

The Company makes compulsory national social insurance contributions to the state-funded pension scheme 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. Under Cabinet of Ministers regulation of 17 December 2020 No. 786 "Rules on the distribution of the state social insurance contribution rate by types of state social insurance", starting from 2021, 70.14% of the mandatory state social insurance contributions are paid to fund the state defined contribution pension plan.

2.19. Investments in subsidiaries

Investments in subsidiaries are measured at cost, less impairment losses.

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

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

2.20. Comparative information and accounting for the termination of decisive influence

Under the Cabinet of Ministers Order No. 13 of 12 January 2022, the liquidation procedure of SIA "LDZ infrastruktūra" was commenced in 2022.

As at 31 December 2022, the company's liquidation was not yet registered in the Commercial Register, as the ownership title of the transferred assets was in the registration process in the state registers. The company was excluded from the Commercial Register on 12 April 2023.

See Note 16 for more details on asset acquisitions.

3. Significant assumptions and judgements

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

The preparation of financial statements in accordance with IFRS Accounting standards requires the use of estimates and assumptions that affect the amounts of assets and liabilities reported and the disclosures in the notes at the reporting date and the income and expenses recognised during the reporting period. Actual results may differ from these estimates. The areas that are more likely to be affected by judgements are Management's assumptions and estimates in determining the recoverable amount of assets and the amount of provisions, as described below. Apart from the areas mentioned below, there are no other areas that involve significant or complex assumptions or where the assumptions and estimates made are significant to the financial statements.

Useful life of property, plant and equipment

The Company assesses the remaining useful lives of its property, plant and equipment at each reporting period end. Based on the most recent assessment carried out by the Company's Finance Department, 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

In previous years, 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.



For the purpose of impairment testing, all of the Company's assets are divided into cash generating units, geographical rail track lines. Each line has been assessed for indicators of impairment. Lines with impairment indicators were tested for impairment. 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. In 2023, freight volumes did not decrease significantly and the decrease in volumes was compensated by maintaining revenues at the planned level and reducing costs. The projected cash flows from the previously impaired cash generated units, were reassessed. The calculations took into account that the Ministry of Transport, in accordance with European Union directives, in order to make railways the backbone of transport, intends to ensure rail transport between all major cities in Latvia as the primary mode of transport and to provide funding for the infrastructure required for passenger transportation. In addition, Latvijas dzelzceļš plans to optimise freight handling and reduce the costs of the infrastructure required for freight transport. As a result, it was concluded that the assets were recognised at fair value.

As the circumstances underlying the impairment did not change significantly in 2023, no additional impairment was recognised in 2023.

Future expected cash flows are determined based on the actual 2023 figures and the 2024 budget data, extrapolated over the next 10 years. The 10-year calculation period is taken due to the specific nature of the infrastructure carrier's assets – these are long-term assets that provide returns over a long period. When discounting future projected cash flows, a weighted average cost of capital (WACC) of 6.28% is applied, determined as the weighted average cost of capital of the infrastructure manager. The WACC is the most important indicator that influences the estimation of impairment. A WACC of 7.28% (up 1%) would lead to an impairment loss of EUR 5 million.

In addition to the assessment at the level of cash-generating units, an overall impairment assessment has also been carried out, determining the Company's total value in use. As a result of this assessment, no additional impairment needs to be recognised in 2023 and 2022. Future expected cash flows are determined based on the actual figures for 2023 and the budget for 2024, extrapolating them to the next 10 years. The 10-year calculation period is taken due to the specific nature of the infrastructure carrier's assets – these are long-term assets that provide returns over a long period of time. In 2023, the discount rate (WACC) applied in the calculation of the total impairment was 6.28%.

In this calculation, the WACC is also the key estimate influencing the impairment. A WACC of 7.28% (plus 1%) would lead to an impairment loss of EUR 29 million.

Financial stability payment

The main task of the Company is to ensure the management of the national public-use railway infrastructure and provide safe, high-quality and efficient railway and logistics services in the interests of the Latvian state and economy. To compensate for losses incurred in providing these services, in accordance with Section 9, Paragraph 4 of the Railway Law, it is envisaged to receive state funding to ensure financial stability of VAS "Latvijas dzelzceļš", as the state shall ensure that the profit and loss account of an infrastructure manager shall at least balance income from infrastructure charges, surpluses from other commercial activities, non-refundable incomes from private sources and state funding, on the one hand, including advance payments from the state, where appropriate, and infrastructure expenditure, on the other hand.

In the reporting year, the necessary financing for ensuring financial stability is recognised as other revenue in accordance with IAS 20 "Accounting for Government Grants". These principles provide for the recognition of a government grant at the moment when there is a reasonable assurance that the conditions attached to the grant are fulfilled. In addition, grants relating to the recovery of costs should be recognised in the period in which the costs are occurred, provided that there is reasonable assurance that the grant will be received in the future.

The multi-annual agreement, concluded in 2018, has expired on 31 December 2022, and work is currently underway on the conclusion of a new contract for future periods.



4. Revenue

Types of activities	2023	(EUR) 2022
Revenue from contracts with customers (IFRS 15):		
Revenue recognised over time:		
Fees for the use of public-use railway infrastructure	43 499 341	50 637 169
Ancillary services of the infrastructure manager	19 854 268	21 752 113
Specific services relating to maintenance and repair of infrastructure	1 278 043	852 821
Services at passenger stations	1 163 780	1 059 279
Construction services	634 922	36 420
Principal's services	397 221	638 407
Other services	3 549 684	3 076 757
<i>Total recognised over time</i>	<i>70 377 259</i>	<i>78 052 966</i>
Revenue recognised at a point in time		
Electricity distribution and trading services	17 412 074	11 168 661
Information technology services	4 002 900	4 060 272
Electronic communications services	760 112	725 987
Total recognised at a point in time	22 175 086	15 954 920
Total revenue from contract with customers (IFRS 15)	92 552 345	94 007 886
Other revenue (IFRS 16):		
Lease revenue	4 585 845	4 466 540
Other revenue (IAS 20)		
Revenue for the maintenance of the railway infrastructure (State budget funding)	35 634 257	30 113 757
Revenue for ensuring financial stability*	32 439 157	24 358 998
Revenue from maintaining service points (State budget funding)	197 998	211 116
Total other income (IAS 20)	68 271 412	54 683 871
Total	165 409 602	153 158 297

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

The criterion for receiving a financial stability payment is non-fulfilment of the financial stability conditions set out in Section 9, Paragraph 4 of the Railway Law. As the Company did not fulfil the expected financial stability conditions in 2023, the criteria for receiving financial stability payments under the Railways Law were met accordingly. The financial stability payments are recognised as revenue in 2023.

The required financial stability payment of EUR 32,439,157 to be received in the future is recognised in the statement of financial position as "Accrued income" based on the obligations and commitments set out in Section 9, Paragraph 4 of the Railway Law. In 2023, to ensure financial stability Latvijas dzelzceļš received EUR 10 million (partial payment for 2022).

To clearly present the total recognised financial stability payment in the financial statements, the Company's Statement of Comprehensive Income shows additional columns '2023 performance before financial stability payments' and '2022 performance before financial stability payments', respectively. This disclosure is not required by IFRS Accounting standards, but provided as a supplementary indicator to disclose information on the Company's profit or loss, in order to receive state funding to compensate for losses in accordance with Section 9, Paragraph 4 of the Railway Law to ensure financial stability of VAS "Latvijas dzelzceļš".



5. Other revenue

	(EUR)	
	2023	2022
Gradual recognition of deferred income	19 347 902	17 814 164
Gain on sale of inventories	1 864 235	80 843
Gain on sale of property, plant and equipment	351 748	1 566 001
Fines and late payment interest	271 257	144 788
Adjustment to other provisions (see Note 19)	151 444	199 073
Foreign currency exchange rate fluctuations	144 555	28 278
Financing to implement the on-the-job training project	25 091	4 380
Adjustment to provision for bad debts	4 106	-
Revenue from the "Pedestrian Tunnel in Ogre" construction project	-	1 471 542
Other income	672 703	598 452
Total	22 833 041	21 907 521

7. Personnel expenses

	(EUR)	
	2023	2022
Salaries and wages	66 166 385	62 103 071
National social insurance mandatory contributions	15 963 833	14 679 268
Other social security contributions	1 901 442	1 652 823
Severance pay	1 454 339	210 441
Change in accruals for annual leaves	339 018	(428 984)
Supplementary pension insurance for employees	294 568	288 469
Other staff costs	104 202	108 981
Total	86 223 787	78 614 069
of which remuneration to the members of the Board and Council of the Company	422 716	586 556
incl. remuneration for work	342 031	474 598
National social insurance mandatory contributions	80 685	111 958

6. Cost of goods, materials and services

	(EUR)	
	2023	2022
Electricity	24 064 241	15 719 924
Cost of materials	5 573 544	4 447 756
Cost of security services and maintenance of security equipment	4 556 614	3 759 361
Rent and utilities, boiler house maintenance	3 740 845	3 507 925
Charges for manoeuvre work	3 679 528	3 954 695
Cost of current repairs of property, plant and equipment, other repair costs	3 455 162	3 365 882
Heating and fuel	3 119 203	3 095 112
Information software maintenance, licence fees	2 705 623	2 529 259
Costs of the railway administration bodies	2 292 589	2 292 589
Payments for the work of locomotives and service site crews in the operating activity	1 443 804	1 403 099
Costs relating to telecommunications services	745 098	615 890
Maintenance, registration, and roadworthiness test costs	728 985	709 554
Real estate tax	578 967	589 229
Third-party civil liability insurance expenses	449 715	432 255
Membership fees for transnational organisations	328 576	311 452
Other costs*	2 746 181	2 486 911
Total	60 208 675	49 220 893

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



Fee for the audit of the financial statements

51 610
2023

51 287
2022



For performing other expert engagements

10 900
2023.gads

10 900
2022.gads



8. Depreciation, amortisation and impairment

	2023	(EUR) 2022
Depreciation of property, plant and equipment and intangible assets	44 423 115	44 012 698
Impairment of property, plant and equipment and intangible assets	-	4 874 177
Depreciation of right-of-use assets	1 563 392	2 525 693
Changes in the provision for obsolete materials (see Note 21))	(117 058)	(323 780)
Total	45 869 449	51 088 788

9. Other expenses

	2023	(EUR) 2022
Loss on disposal of property, plant and equipment and assets under construction	647 019	129 293
Expenses provided for in the Collective bargaining agreement costs of <i>Latvijas dzelzceļš Group</i>	382 984	290 889
Adjustment to other provisions	20 562	29 709
Corporate income tax on deemed distributed profits	19 396	114
Foreign currency conversion	15 156	10 762
Fines and late payment interest	5 354	1 438
Social infrastructure maintenance costs	107	2 229
Other expenses	345 753	317 337
Adjustment to provisions for bad debts	-	97 760
Cost of the "Pedestrian Tunnel in Ogre" construction project	-	1 471 542
Total	1 436 331	2 351 073

10. Cost of the "Pedestrian Tunnel in Ogre" construction project

	2023	(EUR) 2022
Dividends received from Latvijas dzelzceļš subsidiaries:	9 089 691	4 545 819
SIA "LDZ CARGO"	8 158 549	4 000 000
SIA "LDZ ritošā sastāva serviss"	376 252	376 253
SIA "LDZ Loģistika"	396 636	40 642
SIA "LDZ apsardze"	116 330	100 000
AS "LatRailNet"	41 924	28 924

11. Finance income and expenses, net

	2023	(EUR) 2022
Finance income	917 562	372 852
Other interest income	917 562	372 852
Finance expenses	(4 511 654)	(1 797 091)
Interest on borrowings	(4 055 550)	(1 670 625)
Interest expenses on lease transactions	(52 282)	(81 818)
Late payment penalties for extending the tax deadline	(403 822)	(44 648)
Finance expenses, net	(3 594 092)	(1 424 239)



12. Property, plant and equipment

	Land plots	Buildings, structures, and perennial plantations	Railway tracks	Long-term investments in the leased property, plant, and equipment	Technological plant and machinery	Computers, communication equipment, photocopiers and fittings	Other property, plant, and equipment	Assets under construction	Total
									(EUR)
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)
Historical 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 at 01.01.2023	-	125 866 180	556 373 136	81 881	183 448 467	31 293 174	25 425 805	-	922 488 643
Depreciation 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)
Depreciation write-off	-	(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 of property, plant and equipment at 01.01.2023	37 801	3 767 694	22 811 564	-	589 337	483 681	149 648	-	27 839 725
Reversal of impairment	-	(117 875)	(13 415)	-	(51 985)	(80)	(10 493)	-	(193 848)
Impairment of property, plant and equipment 31.12.2022	37 801	3 649 819	22 798 149	-	537 352	483 601	139 155	-	27 645 877
Carrying value at 01.01.2022	813 489	75 703 820	279 771 039	23 411	135 442 773	8 006 618	6 792 607	11 757 601	518 311 358
Carrying value at 31.12.2022	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

In 2023, the cost of property, plant and equipment includes the capitalised portion of the wages of EUR 1,347,214; and social insurance costs of EUR 316,336 (in 2022, the wage part of EUR 1,216,452 and the social security costs of EUR 285,698). In 2023, EUR 60,705,677 (2022: EUR 37,442,007) were spent on the renewal, modernisation and acquisition of property, plant and equipment, intangible assets and the construction of new facilities.

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



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

*In 2022, an impairment loss of EUR 5,919,536 was recognised on property, plant and equipment. This included impairment of EUR 5,843,220 recognised for property, plant and equipment in four railway sections (Čiekurkalns - Krasta, Daugavpils - Indra, Kārsava - Kleperova and Rzekne-Daugavpils) where freight traffic has significantly decreased, and impairment charge of EUR 76,316 recognised for 7 individual assets which are not used in the business and are not expected to be sold in the foreseeable future.



13. Right-of-use assets

(EUR)

	Right-of-use of land plots	Right-of-use of buildings and structures	Right-of-use of railway tracks	Right-of-use plant and machinery	Right-of-use of computers, communication equipment, photocopiers and fittings	Right-of-use of 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
Amendments to contracts and termination of contracts	22 811	(227 329)	(2 497 592)	(628 298)	(1 019 409)	(184 500)	(4 534 317)
Historical cost at 31.12.2023	496 629	4 481 245	-	1 507	-	3 941 758	8 921 139
Accumulated depreciation at 01.01.2023	247 432	2 079 252	2 004 510	505 775	970 224	2 350 659	8 157 852
Depreciation charge	69 867	496 265	74 759	18 731	49 185	855 730	1 564 537
Depreciation write-off	(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 at 01.01.2023	226 386	2 629 322	493 082	124 030	49 185	1 667 111	5 189 116
Carrying value at 31.12.2023	186 416	2 105 664	-	-	-	952 293	3 244 373
Historical cost at 01.01.2022	472 674	4 758 365	2 523 747	1 313 733	1 019 409	4 299 398	14 387 326
New lease agreements	30 878	-	-	-	-	106 296	137 174
Amendments to contracts and termination of contracts	(29 734)	(49 791)	(26 155)	(683 928)	-	(387 924)	(1 177 532)
Historical cost at 31.12.2022	473 818	4 708 574	2 497 592	629 805	1 019 409	4 017 770	13 346 968
Accumulated depreciation at 01.01.2022	195 930	1 537 280	1 523 494	1 062 130	727 668	1 843 158	6 889 660
Depreciation charge	71 870	541 972	512 400	326 029	242 556	931 567	2 626 394
On disposals	(20 368)	-	(31 384)	(882 384)	-	(424 066)	(1 358 202)
Accumulated depreciation at 31.12.2022	247 432	2 079 252	2 004 510	505 775	970 224	2 350 659	8 157 852
Carrying value at 01.01.2022	276 744	3 221 085	1 000 253	251 603	291 741	2 456 240	7 497 666
Carrying value at 31.12.2022	226 386	2 629 322	493 082	124 030	49 185	1 667 111	5 189 116



14. Intangible assets

	(EUR)	
	2023	2022
Licences and rights		
Historical cost at the beginning of the year	13 954 861	9 386 912
Additions	883 823	578 472
Reclassified from property, plant and equipment (see Note 12))	4 882 245	4 020 720
Disposals	(2 401 209)	(31 243)
Historical value at the end of the year	17 319 720	13 954 861
Accumulated amortisation at the beginning of the year	11 263 830	8 408 010
Amortisation charge	1 022 377	503 877
Reclassified from property, plant and equipment (see Note 12)	4 539 536	2 383 186
Disposals	(2 401 209)	(31 243)
Accumulated depreciation at the end of the year	14 424 534	11 263 830
Impairment	16 314	16 314
Carrying value at the beginning of the year	2 674 717	962 588
Carrying value at the end of the year	2 878 872	2 674 717
Intangible assets in unfinished construction objects*	604 026	-
Intangible assets	3 482 898	2 674 717

*At 31.12.2023, the amount of intangible assets included in construction in progress was EUR 604,026, including EUR 86,806 reclassified (see Note 12) from the property, plant and equipment under construction, related to works carried out in previous years but not yet completed. The intangible assets (including the costs of unfished construction) at 31.12.2023 totalled EUR 3,482,898.

15. Investments in subsidiaries Subsidiaries

SIA "LDZ CARGO"		
Uniform registration number		40003788421
Registered office		Dzirnavu iela 147, k-1, Riga, LV-1050
Shareholding, %		100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year		01.01.2023. - 31.12.2023.
SIA "LDZ ritošā sastāva serviss"		
Uniform registration number		40003788351
Registered office		Vilhelma Purvīša iela 21, Riga, LV-1050
Shareholding, %		100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year		01.01.2023 - 31.12.2023
SIA "LDZ apsardze"		
Uniform registration number		40003620112
Registered office		Zasas iela 5-3, Riga, LV-1057
Shareholding, %		100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year		01.01.2023 - 31.12.2023
SIA "LDZ Loģistika"		
Uniform registration number		40003988480
Registered office		Dzirnavu iela 147, k-2, Riga, LV-1050
Shareholding, %		100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year		01.01.2023 - 31.12.2023
AS "LatRailNet"		
Uniform registration number		40103361063
Registered office		Pērses iela 8, Riga, LV-1011
Shareholding, %		100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year		01.01.2023 - 31.12.2023
SIA "LDZ infrastruktūra" (liquidated on 12.04.2023)		
Uniform registration number		40003788258
Registered office		Gogoļa 3, Riga, LV-1050
Shareholding, %		100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year		01.01.2023.-12.04.2023.



16. Termination of decisive influence in the subsidiary

The liquidation of SIA "LDZ infrastruktūra", which has started in 2022, was finalised in 2023.

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

As at 31 December 2022, the liquidation of SIA "LDZ infrastruktūra" had not been registered in the Register of Enterprises, as the registration of the assets transferred in December with the State registers had not been completed. The company was deleted from the Commercial Register on 12 April 2023. The takeover of the assets of the liquidated subsidiary in 2022 had the following effect on the Company's assets:

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

17. Carrying value of investments in subsidiaries

Subsidiary	LDz shareholding, %	(EUR)	
		31.12.2023.	31.12.2022.
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 the subsidiaries have been measured in the accounting records of Latvijas dzelzceļš at historical cost less accumulated impairment, if any.

**18. Performance indicators of subsidiaries in 2023**

Subsidiary	LDz shareholding, %	2023 profit	2022 profit / (loss)	Equity	
				31.12.2023.	31.12.2022.
				(EUR)	
SIA "LDZ CARGO"	100	3 068 112	5 104 139	117 765 964	122 856 401
SIA "LDZ ritošā sastāva serviss"	100	1 233 832	(325 226)	37 213 927	36 356 347
SIA "LDZ apsardze"	100	242 431	193 367	862 222	736 121
AS "LatRailNet"	100	64 990	37 569	162 777	139 711
SIA "LDZ Loģistika"	100	264 373	711 989	1 869 407	2 001 670
SIA "LDZ infrastruktūra"	100	-	1 661 575	-	-
Total	X	4 873 738	7 383 413	157 874 297	162 090 250

"Latvijas dzelzceļš Group manages public-use railway infrastructure, provides railway transport services and the services related thereto. The Group includes: the Group's parent company, i.e., state joint stock company VAS "Latvijas dzelzceļš" and its subsidiaries SIA "LDZ CARGO", SIA "LDZ ritošā sastāva serviss", SIA "LDZ apsardze", SIA "LDZ Loģistika" and AS "LatRailNet". Until 12 April 2023, Latvijas dzelzceļš owned subsidiary SIA "LDZ infrastruktūra".

The Group has developed a unified strategy and objectives, ensuring an optimal allocation of production and investment resources between business lines and Group companies, coordination of decision-making, and effective control of their implementation. Latvijas dzelzceļš represents the Group's interests at the international level. Latvijas dzelzceļš provides the minimum access service package to public-use railway services and access to public-use railway infrastructure connecting railway infrastructure with service points, provided for in Section 12.1, Paragraph one of the Railway Law, freight wagon handling, wagon maintenance and inspection services, electricity distribution and sale services, rental services, information technology services, electronic communications services, as well as other services.

SIA "LDZ CARGO" provides domestic and international rail freight transportation services, traction services, as well as other rail freight transportation related services. SIA "LDZ ritošā sastāva serviss" carries out technical maintenance and repairs of the railway rolling stock, equips and modernises locomotives, and provides locomotive, track machinery and equipment rental services.

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

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



19. Loans to affiliated companies

As at 31.12.2023, the balance of the loan granted to SIA "LDZ ritošā sastāva serviss" to finance the modernisation of diesel locomotives totalled EUR 15,948,132. Movement in loan balances is presented in the table below:

Loans to affiliated companies	At 01.01.2023. (gross carrying amount)	Reclassified according to the payment due date	Repaid loans	(EUR)		
				At 31.12.2023 (gross carrying amount)	Provision for expected credit loss*	Balance 31.12.2023 (Net book value)
Long-term portion	17 478 721	(5 718 972)	-	11 759 749	(19 348)	11 740 401
Short-term 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

Loans to affiliated companies	At 01.01.2023. (gross carrying amount)	Reclassified according to the payment due date	Repaid loans	(EUR)		
				At 31.12.2023 (gross carrying amount)	Provision for expected credit loss*	Balance 31.12.2023 (Net book value)
Long-term portion	24 094 897	(6 616 176)	-	17 478 721	(121 222)	17 357 499
Short-term portion	5 629 203	6 616 176	(8 026 408)	4 218 971	(60 810)	4 158 161
Total	29 724 100	-	(8 026 408)	21 697 692	(182 032)	21 515 660

* In 2023, the provision for expected credit loss was revised downwards by EUR 151,444. The decrease in provisions was mainly due to a decrease in the loan balance.

20. Other long-term financial investments

Name of the company	Shareholding, %	Carrying value (EUR)	
		31.12.2023.	31.12.2022.
Belarus-Latvia joint venture "MIRIGO"	3.0	10 126	10 126
SIA "STREK"	5.84	73 982	73 982
Gross carrying amount	X	84 108	84 108
Impairment of financial investments		(10 126)	(10 126)
Net book value		73 982	73 982

21. Inventories

	(EUR)	
	31.12.2023.	31.12.2022.
Road surface materials	4 247 009	4 047 789
Other materials	1 664 358	1 619 980
Spare parts	234 185	315 111
Heating and fuel	272 521	311 643
Other inventories and work-in-progress	3 625	4 760
Gross carrying amount	6 421 698	6 299 283
Provisions for obsolete materials	(2 334 137)	(2 451 195)
Net book value	4 087 561	3 848 088



22. Trade and other receivables

	(EUR)	
	31.12.2023.	31.12.2022.
Trade receivables	4 079 144	5 545 839
Doubtful debts	799 439	822 796
Other receivables	1 747 078	1 500 326
Gross carrying amount	6 625 661	7 868 961
Expected credit loss	(799 439)	(822 796)
Net book value	5 826 222	7 046 165

To estimate the expected impairment, receivables were grouped according to their risk characteristics and days past due (detailed information is provided in Note 29). Expected loss rates are based on historical repayment rates, defined as the ratio of lost debt to corresponding revenue over the last 36 months (from 31 December 2023 or 1 January 2023, respectively). Historical loss ratios were adjusted to reflect current and projected information on macroeconomic factors affecting the ability of customers to settle with the Company. GDP forecasts are considered the most significant factor since they are most directly affected by changes in bad receivables.

As of 31 December 2023 and 1 January 2023, the provisions for trade receivables that were either not past due or less than 6 months past due have been immaterial and therefore recognised in the financial statements at zero value.

Similar calculations have been made for related party receivables, loans granted to related parties, other receivables, and cash and cash equivalents, except that these calculations were not based on historical experience but on default rates of external credit rating agencies for similar borrowers or groups of borrowers. This approach has been chosen because the Company does not have historical loss data for these classes of financial assets. Based on the calculations, at 31 December 2022 it was concluded that the credit quality of these assets was not good and therefore an expected credit loss of EUR 182 thousand was recognised. However, when assessing the credit quality of the subsidiaries and the total loan balance as of 31 December 2023, the amount of recognised credit losses was reduced to EUR 31 thousand.

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

	(EUR)	
Expected credit loss movement	31.12.2023.	31.12.2022.
Allowance for expected credit loss at the beginning of the year	822 796	766 149
Decrease in allowance due to debt recovery	(120 549)	(21 549)
Decrease in allowance due to the write-off of receivables	(19 251)	(41 112)
Additional allowances	116 443	119 308
Allowance for expected credit loss at the end of the year	799 439	822 796

23. Cash and cash equivalents

	(EUR)	
	31.12.2023.	31.12.2022.
CASH IN BANK	25 502 240	59 014 126
Cash in hand	2 786	2 214
Total	25 505 026	59 016 340

24. Share capital

Registered and paid-up share capital of the Company

The share capital of Latvijas Dzelzceļš is EUR 327,621,636, consisting of three hundred twenty-seven million six hundred twenty-one thousand six hundred thirty-six shares with a nominal value of EUR 1 (one euro) per share.

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



25. Provisions

	(EUR)	
	31.12.2023.	31.12.2022.
Other provisions	283 212	262 650
Total non-current portion	283 212	262 650
Provisions for severance pay	1 205 716	144 897
Other provisions	11 089	11 089
Total current portion	1 216 805	155 986
Total	1 500 017	418 636

26. Borrowings from credit institutions

	(EUR)	
	31.12.2023	31.12.2022.
Non-current borrowings from credit institutions	53 988 276	66 309 363
Current borrowings from credit institutions	32 321 087	24 247 388
Total borrowings from credit institutions	86 309 363	90 556 751

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, the Company has received EUR 20,000,000, and EUR 24,247,388 of borrowing were repaid.

The loan agreements concluded between the Company and banks provide for certain financial indicators in VAS "Latvijas dzelzceļš" financial statements or the consolidated financial statements, which must be met during the term of the loan agreement. As of 31 December 2022, 31 December 2023, and the beginning of 2024, none of the borrowings was in default.

Latvijas dzelzceļš has not pledged its assets against borrowings.

Movement table of provisions by type of provision in 2023

	(EUR)		
	At 01.01.2023.	Increase in provisions, Net	31.12.2023.
Provisions for severance pay	144 897	1 060 819	1 205 716
Other provisions	273 739	20 562	294 301
Total	418 636	1 081 381	1 500 017

Movement table of provisions by type of provision in 2022

	(EUR)		
	At 01.01.2022.	Increase (decrease) in provisions, Net	31.12.2022.
Provisions for severance pay	773 397	(628 500)	144 897
Other provisions	254 156	19 583	273 739
Total	1 027 553	(608 917)	418 636

Borrowings repayable and interest rates as of 31 December 2023:

	(EUR)		
Borrowing currency	Borrowing, EUR	Interest rate	
EUR	69 871 854	3M EURIBOR + 0,77% līdz 3,5%	
	16 437 509	6M EURIBOR + 0,75% līdz 1,1%	
Total	86 309 363		

Borrowings repayable and interest rates as of 31 December 2022:

	(EUR)		
Borrowing currency	Borrowing, EUR	Interest rate	
EUR	67 419 632	3M EURIBOR + 0,77% līdz 3,5%	
	23 137 119	6M EURIBOR + 0,75% līdz 1,1%	
Total	90 556 751		



Borrowings and calculated interest movement

	(EUR)	
	2023	2022
Borrowings and calculated interest at the beginning of the reporting period	90 761 044	120 698 790
Borrowings received in the reporting period	20 000 000	-
Calculated interest in the reporting period	4 055 550	1 670 625
Borrowings repaid in the reporting period	(24 247 388)	(30 058 772)
Interest paid in the reporting period	(3 919 993)	(1 549 599)
Borrowings and imputed interest at the end of the reporting period	86 649 213	90 761 044

27. Nākamo periodu ieņēmumi

	(EUR)	
	31.12.2023.	31.12.2022.
Non-current portion of deferred income (EU fund and state budget funding)	274 799 062 49 374	265 378 437 65 832
Other deferred income	274 848 436	265 444 269
Total non-current portion	18 731 370	19 360 066
Current portion of deferred income (EU fund and state budget funding)	136 106 18 867 476	385 132 19 745 198
Other deferred income	293 715 912	285 189 467
Total current portion		
Total deferred income		

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

EU fund and state budget project funding movement in 2023

	(EUR)					
Deferred income	Balance at 01.01.2023	Reclassified (transferred)	Received funding	Transfer of funding to the partner	Decrease in the property, plant and equipment 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

EU funds received in 2023:

- EUR 7,656,908 for the project "Modernisation of railway passenger infrastructure",
- EUR 20,052,778 for the project "Modernisation of railway infrastructure to increase train speeds",
- EUR 355,136 for the project "Installation of fencing and pedestrian crossings at railway infrastructure sites" and
- EUR 138,778 for the project "Building an interoperable railway system in the Baltic States".

As part of the project "Development of an interoperable railway system in the Baltic States", Latvijas dzelzceļš as the beneficiary transferred EUR 63,769 to Eesti Raudtee AS under the concluded cooperation agreement.

EU fund and state budget project funding movement in 2022

	(EUR)					
Deferred income	Balance at 01.01.2022.	Reclassified (transferred)	Received funds	Transfer of the funds to the partner	Decrease in the property, plant and equipment depreciation charge	Balance at 31.12.2022
Non-current portion	250 141 983	(20 945 357)	36 263 967	(82 156)	-	265 378 437
Current portion	19 054 798	20 945 357	-	-	(20 640 089)	19 360 066
Total	269 196 781	-	36 263 967	(82 156)	(20 640 089)	284 738 503



28. Taxes and national social security mandatory contributions

Type of tax	(EUR)	
	Tax liabilities 31.12.2023.	Tax liabilities 31.12.2022
National social insurance mandatory contributions	7 993 205	13 605 754
Personal income tax	7 815 498	5 544 638
Value added tax	5 683 613	4 459 415
Natural resources tax	9 143	10 905
Business risk duty	1 414	1 432
Corporate income tax	1 167	38
For use of numbering rights	45	45
Company vehicle tax	-	248
Vehicle use tax	-	157
Total	21 504 085*	23 622 632

* As at 31 December 2023, non-current liabilities and current liabilities totalled EUR 5,081,936 and EUR 16,422,149, respectively.

Latvijas dzelzceļš had no tax overdue payments to the state budget as at 31.12.2023.

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

29. Financial risk management

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

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

The Company's financial instruments are categorised as follows:

	(EUR)	
	31.12.2023.	31.12.2022.
Financial assets at amortised cost		
Trade and other receivables, excluding advances	71 221 794	55 278 366
Cash and cash equivalents	25 505 026	59 016 340
Financial assets at fair value through profit or loss		
Long-term financial investments	73 982	73 982
Total financial assets	96 800 802	114 368 688
Financial liabilities at amortised cost		
Borrowings from credit institutions	86 309 363	90 556 751
Trade and other payables, including lease liabilities, excluding advances (including non-current portion)	30 312 512	35 362 152
Total financial liabilities	116 621 875	125 918 903



Market risk

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

Interest rate risk

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

All the Company's borrowings have variable interest rates. See Note 26 for a detailed description of the borrowing rates. The Company manages the risk of changes in interest rates by regularly assessing the borrowing rates available in the market. If interest rates lower than current rates are available, the Company evaluates the financial cost-effectiveness of loan restructuring.

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

Interest rate sensitivity

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

	2023		2022		(EUR)
	Base rate increase / decrease (base points)	Impact on profit before tax (EUR)	Base rate increase / decrease (base points)	Impact on profit before tax (EUR)	
EURIBOR	(+100)	(39 624)	(+100)	(16 706)	
	(-100)	39 624	(-100)	16 706	

Currency risk

Currency risk is the risk of loss arising from adverse movements in exchange rates on assets and liabilities denominated in foreign currencies. The currency risk to which the Company is exposed arises primarily from its operating activity – revenue and expenses are denominated in different currencies. The Company's trade receivables are mainly denominated in euros. A detailed breakdown of financial instruments by currency is provided in Note 32.

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

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

Currency sensitivity

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

Credit risk

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

Trade receivables

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

The Company continuously monitors its receivable balances to minimise the possibility of uncollectible debts. The possible decrease in the value of trade receivables is analysed on an ongoing basis.

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

As of 31 December 2023, the Company had 3 customers (4 customers in 2022) which each owed the Company over EUR 700 thousand. These receivables made up 94.4% (93.8% in 2022) of the total amount of receivables. Excluding debts of subsidiaries that were not yet due for payment on 31 December 2023, two customers owed more than EUR 700 thousand, which is 87.2% of the total receivables.

The Company does not have an internal credit rating system for assessing trade receivables. There were no material changes in expected credit losses on trade receivables during 2023. 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, compounded by the debtor's insolvency, bankruptcy, or liquidation.

The maximum credit risk to which the Company is exposed is presented in the table below:



	31.12.2023.	31.12.2022
Cash and cash equivalents	25 505 026	59 016 340
Trade and other receivables (gross amount), excluding advances and prepayments	72 051 821	56 283 194
Total	97 556 847	115 299 534

Expected credit loss as of 31 December 2023 was determined by applying the following expected credit loss rates:

	(EUR)				
	Not past due	Over 30 days past due	Over 90 days past due	Over 120 days past due	Total
Expected credit loss rate	0,10%	1,50%	8,00%	76,52%	-
Loans to affiliated undertakings	15 978 720	-	-	-	15 978 720
Trade and other receivables (gross amount)	54 660 218	288 303	153 981	970 599	56 073 101
Expected credit losses	(70 639)	(4 325)	(12 318)	(742 745)	(830 027)

Cash deposits

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

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

Expected credit loss as of 31 December 2022 was 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	0,38%	2,00%	11,00%	96,00%	-
Loans to affiliated undertakings	21 697 692	-	-	-	21 697 692
Trade and other receivables (gross amount)	33 710 974	43 939	2 939	827 650	34 585 502
Expected credit losses	(209 082)	(879)	(323)	(794 544)	(1 004 828)

	(EUR)	
Credit rating	31.12.2023.	31.12.2022
Aa3	14 408	312 219
A3	25 480 241	58 384 864
Unrated	7 591	317 042
Total	25 502 240	59 014 125



Liquidity risk

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

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

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

In 2023 the Company's operating performance result was zero as Latvijas dzelzceļš is entitled to receive funding to ensure financial stability of the national public-use railway infrastructure manager as defined in the laws and regulations.

As of 31 December 2023, the Company's current liabilities exceeded its current assets by EUR 5,620 thousand. The total liquidity ratio was 0.94. Current liabilities include deferred income of EUR 18,731 thousand relating to investments in public railway infrastructure by EU funds and the state budgets. Excluding deferred income related to investments in public railway infrastructure by EU and state budget funds, the liquidity ratio was 1.17. In 2023, a credit line for short-term cash flow financing of EUR 5,000 thousand was issued to the Company by Luminor Bank AS Latvian branch in case the payments from the state budget to ensure financial stability are delayed. In 2023, there was no need to use the credit line.

In view of the above, we consider that the Company is financially sound and able to meet its current liabilities.

The loan agreements concluded with banks provide for the financial indicators that Latvijas dzelzceļš must meet during the term of the agreement. As of 31 December 2022, 31 December 2023 and the beginning of 2024, no borrowings were in default.

The tables below provide information on the Company's financial liabilities by maturity, based on the contractual undiscounted amounts of the financial liabilities, including interest payments:

	(EUR)						(EUR)				
31 december 2023	Up to 3 months	3 to 12 months	1 to 5 years	more than 5 years	Total	31 december 2022	Up to 3 months	3 to 12 months	1 to 5 years	more than 5 years	Total
Borrowings from credit institutions	8 564 160	28 064 803	56 345 343	2 055 189	95 029 495	Borrowings from credit institutions	6 895 246	20 204 096	67 969 056	2 027 189	97 095 587
Other liabilities (including other borrowings, trade and other payables)	16 701 105	10 544 946	1 676 884	1 157 213	30 080 148	Other liabilities (including other borrowings, trade and other payables)	22 363 834	8 315 239	3 345 481	1 285 578	35 310 132
Total	25 265 265	38 609 749	58 022 227	3 212 402	125 109 643	Total	29 259 080	28 519 335	71 314 537	3 312 767	132 405 719



30. 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. Where market data are not observable, the valuation technique reflects the Company's assumptions about market conditions.

This hierarchy requires the use of observable market data where available. In making the revaluation, the Company shall take into account relevant observable market prices, where practicable.

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

The purpose of fair value determination, even if the market is not active, is to determine the transaction price at which market players would be willing to sell the asset or to assume liability at a specific valuation 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 rated at Level 1.

Valuation technique when using market data – Level 2

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

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

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

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

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

Assets and liabilities for which fair value is disclosed

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

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



31. Capital management

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

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

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

32. Financial assets and liabilities by currency

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

31 december 2023	(EUR)			
	EUR	USD EUR	CHF and 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
Borrowings from credit institutions	86 309 363	-	-	86 309 363
Trade and other payables, excluding advances	29 122 852	-	1 189 660	30 312 512
Total financial liabilities	115 432 215	-	1 189 660	116 621 875

	(EUR)	
	31.12.2023.	31.12.2022.
Borrowings from credit institutions and other borrowings	86 309 363	90 556 751
Accounts payable (including taxes)	51 874 560	59 091 302
Other liabilities	295 215 929	285 608 103
Total liabilities	433 399 852	435 256 156
Equity	351 235 052	351 235 052
Total equity and liabilities	784 634 904	786 491 208
Borrowed capital to total capital ratio	55%	55%
Equity to total liabilities ratio	81%	81%

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



33. Capital expenditure commitments

The Company plans to continue to incur capital expenditure in property, plant and equipment and intangible assets in the next financial year, the most significant of which are contracts signed but not yet finalised:

				(EUR)			
Name of counterparty, subject of the contract	Contract date	Contract performance period	Contract amount EUR	Unfinished construction object	Unfinished construction objects at 31.12.2023	Budgeted costs in 2024	Expected finalisation year
BMGS-FIMA General Partnership: Construction of elevated platforms on the railway line Riga-Jelgava	29.07.2021.	06.08.2024.	6 916 649	Riga railway section modernisation of the Sarkandaugava-Mangalji-Ziemeļblāzma	23 318 523	-	2024. gads
BMGS – FIMA General Partnership: Modernisation of the Dobeles station interlocking system	28.04.2023.	28.12.2024.	3 692 812	Introduction of digital radio communications	3 520 352	1 816 763	2024. gads
BMGS – FIMA General Partnership: Construction of elevated construction of platforms on the railway line Riga – Krustpils	29.07.2021.	16.03.2024.	10 752 404	Overhaul of railway stations, process buildings and external engineering networks, replacement of heating systems	383 083	1 220 000	2024. gads
BMGS – FIMA General Partnership: Construction of elevated platforms on the railway line Riga – Tukums II	29.07.2021.	15.08.2024.	6 162 830	Major repairs of engineering structures	103 019	380 000	2024. gads
BMGS – FIMA General Partnership: Construction of elevated platforms on the railway line Zemitani – Skulte	30.07.2021.	16.03.2024.	8 228 290	IT technology development	197 377	233 730	2024. gads
Fima Group General partnership: Implementation of unified information notification and video surveillance systems	12.05.2022.	15.08.2024.	5 512 291	Modernising rail passenger infrastructure (CINEA) Replacement of the APOVS and establishment of the OPVS	27 760 538	90 520 653	2024. gads
AOP BMGS-FIMA-ASTOM: Modernisation of railway infrastructure to increase train running speed: construction	15.09.2022.	17.05.2024.	57 938 490	Other projects	1219 693	1 425 770	2024. gads
					183 804	153 000	2024.–2025. gads
				Total	56 686 389	95 749 916	x

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

Unfinished construction includes EUR 156,281 of materials purchased for investment projects.

34. Research and development activities

Costs	(EUR)	
	2023	2022
Internal expenditure on research and development work carried out by the Company*	4 851 320	1 327 327
External expenditure for research and development work commissioned in other institutions, enterprises, organizations	148 517	15 247
Total	4 999 837	1 342 574

*of which expenditure on property, plant and equipment for development projects in 2023 amounts to EUR 4,741,300.

In 2023, R&D employed 9 employees with remuneration of EUR 87,186.

35. Contingent tax liability

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. Management is not aware of any circumstances that may give rise to possible material future liabilities.

36. Future lease income

Operating lease income in 2023 totalled EUR 3,239,059. It is expected that operating lease income will be received in an amount equivalent to that received in 2023 over a period of one to five years.

37. Number of employees number employed in the Company

The Company employed on average 3,945 employees in 2023 (4,037 employees in 2022).

**38. Related party transactions**

The Company applies reliefs provided for in IAS 24 and presents only material transactions with state-related parties. The Company has transactions with the Ministry of Transport (100% shareholder of the Company) and other commercial companies whose shares are owned by the State. The largest transactions are with AS "Pasažieru vilciens" (payment for the minimum access service package, electricity distribution and sales, lease of premises, purchase of subscriber tickets) for EUR 24,454 thousand (in 2022: EUR 17,614 thousand) and AS "Latvenergo" (purchase of electricity) for EUR 39,354 thousand (in 2022: EUR 20,029 thousand). The transactions between them are related to the primary business of the respective parties.

	(EUR)	
Related party	31.12.2023.	31.12.2022.
Payables to AS "Pasažieru vilciens"	1 391 972	1 882 123
Payables to AS "Latvenergo"	2 611 764	2 706 860

Receivables from affiliated undertakings:

	(EUR)	
Subsidiary	31.12.2023.	31.12.2022.
Short-term debts		
SIA "LDZ CARGO"	3 960 489	3 354 366
SIA "LDZ ritošā sastāva serviss"	359 071	423 584
SIA "LDZ apsardze"	34 464	42 152
AS "LatRailNet"	6 543	8 556
SIA "LDZ Loģistika"	35 796	29 211
Total*	4 396 363	3 797 059
<i>of which accrued in December of the reporting year</i>	4 396 363	3 797 059
Current borrowings		
SIA "LDZ ritošā sastāva serviss"	4 207 731	4 158 161
Non-current borrowings		
SIA "LDZ ritošā sastāva serviss"	11 740 401	17 357 499

Transactions with subsidiaries:

Counterparty	2023		2022		(EUR)
	Goods/services		Goods/services		
	Sold/provided	Purchased/received	Sold/provided	Purchased/received	
SIA "LDZ CARGO"	57 921 656	5 403 220	67 789 862	8 088 983	
SIA "LDZ ritošā sastāva serviss"	2 745 105	5 384 340	2 636 568	4 996 369	
SIA "LDZ apsardze"	372 266	4 903 518	381 610	4 079 650	
AS "LatRailNet"	81 298	4 745	115 862	1 387	
SIA "LDZ Loģistika"	289 259	-	315 024	26 110	
SIA "LDZ infrastruktūra"	-	-	122 914	402 605	
SIA "Rīgas Vagonbūves uzņēmums "Baltija""	-	-	3 136	-	
Total	61 409 584	15 695 823	71 364 976	17 595 104	

Payables to related companies:

	(EUR)	
Subsidiary	31.12.2023.	31.12.2022.
SIA "LDZ CARGO"	1 195 491	1 391 752
SIA "LDZ ritošā sastāva serviss"	1 477 825	683 894
SIA "LDZ apsardze"	469 959	536 875
AS "LatRailNet"	1 080	-
Total*	3 144 355	2 612 521
<i>of which accrued in December of the reporting year</i>	2 242 623	1 853 792
*including current lease liabilities to related companies	-	16 438



39. Going concern

External factors related to the geopolitical situation, the war in Ukraine and the international economic sanctions imposed on Russia and Belarus suggest that the situation regarding freight transport volumes will not improve significantly in the future. According to the Company's estimates, the impact of the Russian grain import ban on the Company's revenue will not be significant.

As at 31 December 2023, the Company's current liabilities exceed its current assets by EUR 5,620 thousand. The total liquidity ratio was 0.94. Current liabilities include deferred income of EUR 18,731 thousand relating to investments in public railway infrastructure by EU projects and the state budgets. Excluding deferred income related to investments in public railway infrastructure by EU projects and state budget funds, the liquidity ratio was 1.17. In 2023, a credit line for short-term cash flow financing of EUR 5,000 thousand was issued to the Company by Luminor Bank AS Latvian branch for the case if there are delays in payments from the state budget to ensure financial stability. In 2023, there was no need to use the credit line.

Following Russia's invasion of Ukraine on 24 February 2022, extensive economic and political sanctions have been imposed against Russia and Belarus. The sanctions had a significant impact on the Company's operations, as it was necessary to review the internal sanctions management processes, as well as to direct additional resources to sanctions inspections by carrying out inspections of both cooperation partners and cargo transported.

Given the Company's cooperation with its Russian and Belarusian partners, as well as the nature of its operations, the war in Ukraine has undoubtedly had and will continue to have an impact on the Company's operations in 2023 and beyond. The restrictions enacted to date have contributed to the cargo 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 the sanctions, the following measures have been taken:

1. The Company has established a separate Sanctions Unit and Sanctions Committee, strengthening the exchange of information on sanctions reviews within the Group.
2. The Group has developed and implemented the Latvijas dzelzceļš Group Sanctions Policy, ensuring a uniform approach to sanctions checks throughout the Group.
3. In assessing the risks related to significantly expanded lists of sectoral sanctions, the Company strengthened cargo inspection procedures by increasing the assessment of cargo types and their compliance with the established sectoral sanctions.
4. All persons included in the sanctions lists are reflected in the information system (IS) Sanctions maintained by the Company, which ensures daily automatic verification of all clients and cooperation partners for coincidence with the lists of sanctioned persons. The lists of IS Sanctions are updated daily by automatically contacting the official sites that maintain news about the sanctions of the Republic of Latvia, the European Union, the UN and OFAC.
5. In 2024, work will continue on the development of IS Sanctions, as well as on strengthening the sanctions area of the Company through a number of technical improvements.

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

However, despite the complicated situation, Management of Latvijas dzelzceļš is confident that the going concern basis is applicable to the preparation of the financial statements which is justified with the implementation of the Group's new business model, the crisis plan and the review of organisational and technological processes, which has resulted and will continue to result in cost reductions, the receipt of state funding for 2022-2022 under the multi-annual agreement "On planning and financing of maintenance and development of public use railway infrastructure under the management of VAS "Latvijas dzelzceļš"", concluded between VAS "Latvijas dzelzceļš" and the Ministry of Transport, and receipt of the necessary state funding for 2023 in accordance with Section 9, Paragraph 4 of the Railway Law. In addition, work will continue in 2024 on the implementation of the Group's new business model and the Company's Medium-term business strategy until 2025. Work is underway with the Ministry of Transport to prepare a new agreement to ensure the financial stability of VAS "Latvijas dzelzceļš", as the multi-annual agreement signed in 2018 expired on 31 December 2022.

The main task of the Company 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 national economy of Latvia.

The funding required to achieve financial stability in 2023 is recognised in revenue in accordance with the recognition principles set out in IAS 20 Accounting for Government Grants. These principles require the recognition of a government grant at the point in time when there is reasonable assurance that the conditions attached to the receipt of the grant have been fulfilled. In addition, grants relating to the recovery of costs should be recognised in the period in which the costs are incurred, provided there is reasonable assurance that the grant will be repaid in the future.

The criteria for the Company to receive a financial stability payment are failure to meet the financial stability conditions set out in Section 9, Paragraph 4 of the Railway Law. Given that in 2023 the Company 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 payments set out in Section 9, Paragraph 4 of the Railway Law were therefore met.

To present the total recognised financial stability payments in the financial statements, additional columns "2023 performance before financial stability payments" and "2022 performance before financial stability payments" are included in the Company's Statement of comprehensive income. This disclosure is not required under International Financial Reporting Standards (IFRS) and is provided as an additional indicator to disclose information in the financial statements regarding the Company's profit or loss to receive state funding to compensate for losses to ensure the financial stability of VAS "Latvijas dzelzceļš" under Section 9, Paragraph 4 of the Railway Law.



Although there is confidence in the receipt of financial resources, there is uncertainty regarding the timing of receipt of additional financial resources required by the Company. 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 Latvijas dzelzceļš.

Despite this uncertainty, Management of Latvijas dzelzceļš believes that the going concern basis applies to the preparation of the financial statements based on the approval of the strategy and action plan of Latvijas dzelzceļš, the implementation of the Group's new business model, and the review of organizational and technological processes that should result in future cost reductions. The main task of Latvijas dzelzceļš is to ensure the management of the public railway infrastructure and safe, high quality, and efficient railway and logistics services in the interests of the state, society, and the Latvian economy, therefore we believe that the fulfilment of the conditions set out in Section 9, Paragraph 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.

40. Events after the end of the reporting year

There have been no events since the end of the reporting year that would have had a material impact on the information presented in the 2023 financial statements.

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

R. Pļavnieks
Chairman

V. Balode-Andrūsa
Member of the Board

T. Labzova-Ceicāne
The annual report was prepared by the Finance Directorate of VAS "Latvijas dzelzceļš":
Deputy Finance Director for Economic Matters



INDEPENDENT AUDITOR'S REPORT



Independent Auditor's Report

To the Shareholder of VAS "Latvijas dzelzceļš"

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of VAS "Latvijas dzelzceļš" (the "Company") as at 31 December 2023, and the Company's financial performance and cash flows for the year ended 31 December 2023 in accordance with IFRS Accounting Standards as adopted by the European Union (EU).

What we have audited

The Company's financial statements comprise:

- the statement of comprehensive income for 2023,
- the statement of financial position as at 31 December 2023,
- the statement of changes in equity for 2023,
- the statement of cash flows for 31 December 2023, and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

Independence

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

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Reporting on Other Information Including the Management Report

Management is responsible for the other information. The other information comprises Management report included in the Sustainability and Annual report 2023 as set out on pages 105 to 113, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information included in the Sustainability and Annual report 2023. However, for information included on pages 4 to 97 of the accompanying Sustainability and Annual Report 2023 we have issued a separate limited assurance report on pages 99 to 102.

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

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

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

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

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

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the IFRS Accounting Standards as adopted by the EU 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.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Jana Smirnova
Member of the Board
Certified auditor in charge
Certificate No.188

Riga, Latvia
27 March 2024

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