



State joint stock company
“Latvijas dzelzceļš”

Consolidated Annual Report
for 2023

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

INFORMATION ON THE GROUP'S PARENT COMPANY

Name of the Group's parent company	LATVIJAS DZELZCEĻŠ
Legal status of the Group's parent 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
Shareholder	The 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	The 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
Managing body	The Board of the Company
Board	Rinalds PĻAVNIEKS, Chairman of the Board from 10.02.2023, Member of the Board until 09.02.2023 Vita BALODE-ANDRŪSA, member of the Board Māris KLEINBERGS, Chairman of the Board until 09.02.2023
Name and address of the auditor and the sworn auditor in charge	SIA "PricewaterhouseCoopers" Uniform registration 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

Subsidiaries

SIA "LDZ CARGO"	
Uniform registration number	40003788421
Registered office	Dzirnavu iela 147, k-1, Rīga, 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, Rīga, LV-1050
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, Rīga, 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, Rīga, LV-1057
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, Rīga, 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 iela 3, Rīga, LV-1050
Shareholding, %	100% shareholder – VAS "Latvijas dzelzceļš"
Reporting period	01.01.2023 – 12.04.2023

MANAGEMENT REPORT

ON THE ECONOMIC ACTIVITY OF LATVIJAS DZELZCEĻŠ GROUP IN 2023

1. AN OVERVIEW OF LATVIJAS DZELZCEĻŠ GROUP

Latvijas dzelzceļš Group (*“the Group”*) manages the public-use railway infrastructure and provides rail transportation services and related services.

The *Group* includes the *Group’s* parent company – state joint stock company VAS “Latvijas dzelzceļš” (*“Latvijas dzelzceļš”* or *“the Company”*), SIA “LDZ CARGO”, SIA “LDZ ritošā sastāva serviss”, SIA “LDZ apsardze”, SIA “LDZ Loģistika”, and AS “LatRailNet”. Until 12 April 2023, *Latvijas dzelzceļš* owned its subsidiary SIA “LDZ infrastruktūra”.

To ensure the progress and competitiveness of the *Group’s* business lines, a unified strategy and objectives of the *Group* have been developed, ensuring an optimal distribution of production and investment resources between business lines and the *Group’s* 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 services referred to in the Section 12¹, 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 contributing to the prevention of customs risks, has been granted the status of authorised economic operator, authorised consignee, and authorised consignor, and has been granted a general guarantee permit - an exemption from filing general guarantee.

On 31 December 2023, *Latvijas dzelzceļš* as a public-use railway infrastructure manager 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.

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 CARGO” has been granted the EU Single Safety Certificate, which allows it to transport freight in the territory of Latvia, Lithuania, and Estonia.

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

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

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

AS “LatRailNet” performs the essential functions of a railway infrastructure manager. This 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 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.

Given the freight transportation trends, in 2023 the *Group* continued review of the internal processes started in previous years as a result of which the number of employees also decreased.

In 2023, the *Group* had an average workforce of 6,219 employees, which was 263 employees less compared to 2022.

2. OPERATING PERFORMANCE

The *Group's* consolidated revenue in 2023 totalled 263,529 thousand euros (EUR). Compared to 2022, consolidated revenue has increased by EUR 8,741 thousand, or 3.4%.

Compared to 2022, revenue from freight transportation, which accounts for the majority, 40.9% of the *Group's* consolidated net turnover, has decreased by EUR 11,558 thousand, or 9.7%.

Compared to 2022, the *Group's* consolidated revenue for the use of infrastructure has decreased by EUR 2,034 thousand (12.7%).

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).

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%.

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.

In 2023, the majority of transported goods included grain, 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 transported 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.

Rail freight transportation in the Republic of Latvia is mainly directed from the eastern borders of the country to the three largest ports of Latvia – Riga, Ventspils and Liepaja through the large railway junctions of the eastern part of Latvia in Daugavpils and Rezekne, forming the East-West transit corridor, which is connected to the railway line between the North-South borders of the country, and is also connected to each other by regional lines.

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

The majority of the freight transported by SIA "LDZ CARGO" was from Russia – 53.1%. The share of other countries in the volume of freight imported and transported in land transit was as follows: Kazakhstan – 19.5%, Lithuania – 18.4%, Belarus – 7.4%, Uzbekistan – 1.5%, Estonia – 0.1%.

The *Group's* after-tax losses amounted to EUR 3,231 thousand. Compared to 2022, they have increased by EUR 863 thousand. The consolidated equity of the *Group* as of 31 December 2023 was EUR 392,229 thousand, which is EUR 3,231 thousand less than on 31 December 2022.

The *Group's* companies follow prudent liquidity risk management policy, ensuring that adequate credit resources are available to settle liabilities when they fall due. As of 31 December 2023, the *Group's* current assets exceed its current liabilities by EUR 8,075 thousand, as a result of which the total liquidity - current assets against current liabilities was 1.1. Current liabilities include deferred income of EUR 18,731 thousand, related to the European Union (EU) project, and the state funding related to investments in the public-use railway infrastructure, thus there is a low risk that financial resources will be required to cover these liabilities. The total liquidity ratio, deferred income related to investments of EU projects and state budget funds in the public railway infrastructure, is 1.3. As of 31 December 2023, and early 2024, no non-current borrowings were in default.

Despite declining rail freight volumes, the *Group* continued to ensure the quality of infrastructure and provided services, as well as the required level of safety. In 2023, the total amount of capital investments executed by the *Group* reached EUR 72,030 thousand, (excluding intra-Group capital expenditure). Financial resources have been invested in the restoration, modernization, and purchase of property, plant and equipment, and intangible assets, as well as in the construction of new facilities. Of these, the most significant:

- The amount of capital expenditure of *Latvijas dzelzceļš* in 2023 was EUR 67,252 thousand. Total of EUR 51,337 thousand were invested in the infrastructure development, including EUR 3,962 thousand invested in the implementation of innovative technologies and EUR 47,375 thousand - in other development. Investments in renovation totalled EUR 15,915 thousand, of which EUR 12,454 thousand were invested in capital repairs, EUR 1,374 thousand were invested in the renewal of existing IT systems, EUR 2,087 thousand were spent to purchase, repair and maintenance of technological equipment tracks, as well as in equipment for the further development of information systems and means of communication and intangible assets.
- The total capital expenditure of SIA "LDZ CARGO" in 2023 was EUR 3,850 thousand, which were invested in the renovation, modernisation and acquisition of property, plant and equipment and intangible assets. SIA "LDZ CARGO" has implemented a long-term investment project and in 2023 invested EUR 1,313 thousand in the main repairs of 4 CME-3 series locomotives and EUR 2,280 thousand to the overhaul of 109 railway cars.

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

3. OBJECTIVES AND FUTURE DEVELOPMENT

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

As a significant proportion of costs are attributable to employee resources - the cost of wages and salaries - the review of organisational and technological processes in 2024 will continue the reduction in the Group's workforce that began in previous years.

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

The *Group's* business model is based on the existing assets – high-quality infrastructure, competent team and long-standing experience, while significantly expanding the *Group's* existing areas of activity, developing forwarding activity, including sea forwarding, road transport forwarding, warehousing services, additional post-processing services, etc.

The future priorities of the cargo transportation and logistics business are freight transportation, specialised freights, close cooperation with port authorities and terminals, and a single logistics offer.

In order to maximise the efficiency and productivity of the *Group's* companies, the emphasis will continue to be placed on the intelligent utilisation of the human and material resource base to reduce costs. As a result, the technological processes, the functions to be performed and the *Group's* management options will be evaluated in the future.

Latvijas dzelzceļš and the entire transport and logistics sector of the country are in direct competition with the nearest neighbouring countries – Lithuania and Estonia – for providing transport services to the Latvian transit corridor. The efficiency of infrastructure services will be one of the decisive factors in the competition for freight transport by rail.

In 2024, the main priorities and objectives of the *Group* and the *Company* will focus on a significant increase in the efficiency of the *Company's* operations and the recovery and strengthening of the financial stability, as well as to the introduction and stabilization of the newly developed organizational and technological processes.

Along with the review of the *Group's* activities and promotion of efficiency in 2024, significant attention will be paid to the diversification of target markets and freight segments, attracting freight transportation in new markets, developing new services, etc.

Along with these goals, the *Group* will also actively work on the development of convenient and efficient infrastructure necessary for the needs of passengers, as well as will constantly take care of promoting safety near and on the tracks.

In light of the intensive change processes that have taken place in 2023, the *Group's* management team will ensure effective financial and personnel management, as well as implement comprehensive and transparent communication both within the *Company* and with customers, cooperation partners, stakeholders and the general public.

- The Strategy and Action Plan of *Latvijas dzelzceļš* were accepted under Decision No.VL-34/240 of the Board of *Latvijas dzelzceļš* on 05.07.2021 and approved under Decision No. PA1.2./8-6 of the Board of *Latvijas dzelzceļš* of 14.07.2021.

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

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

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 - Mangalī - 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 a significant impact on meeting the construction deadlines in the projects “Modernisation of railway passenger infrastructure” and “Modernisation of railway infrastructure to increase train speed”.

Due to these circumstances, the deadlines of the contracts concluded within the projects were extended and the projects are being phased out between the two programming periods of the EU funds, i.e., the 2014-2020 and 2021-2027 programming periods, in accordance with 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 25³ of Cabinet Regulation No. 404 of 21 June 2016, a request was submitted to the Central Finance and Contracting Agency (CFCA) for amendments to the CFCA contract for both the projects, to fully complete the project activities and achieve the planned project performance indicators.

The project “Installation of fencing and pedestrian crossings at railway infrastructure objects” under Decision No. VL-1.6/347-2023 of the Board of *Latvijas dzelzceļš* of 31.10.2023 and Decision of the Council of *Latvijas dzelzceļš* of 09.11.2023 No PA 1.2/14-10 has been terminated and the contract with the constructor *Latvijas dzelzceļš* has been unilaterally terminated because 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 undertakings, 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.

Within the framework of the open tender “Modernisation and development of the railway electrified network: construction” on 25.09.2023, financial offers were received from three bidders. The evaluation of bidders' tenders has now started.

The project application “Modernisation of the railway network” has been submitted on 30.11.2023. For the selection of project applications for the recovery mechanism “Competitive rail passenger transport in the common public transport system of the city of Riga for the specific objective 1.1.1.1.i.2 Competitive rail passenger transport in the common public transport system of the city of Riga”. The deadline for eligibility of investment expenditure is 31 March 2026. The financing of the Recovery Fund available for the investment is EUR 72,700, which is provided in the form of a grant.

Recognising that attracting a qualified workforce in the coming years will be challenging, *Latvijas dzelzceļš* 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. Acquisition 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.

- As part of the Estonian branch of **SIA “LDZ CARGO”** (“LDZ CARGO”), work will continue on attracting new customers and developing new routes. LDZ CARGO plans to develop its activities in Lithuania. To achieve this goal, at the end of 2023, an agreement was concluded with LTG INFRA on the use of the Lithuanian public railway infrastructure, which means the possibility of carrying out transportation in the territory of Lithuania. At the end of 2023, the first carriage was carried out, within the framework of which railway tracks were transported from the port of Klaipeda to Tallinn for the implementation of the RAIL BALTICA project.

LDZ CARGO intends to continue the measures started at the beginning of 2023 to reduce the downtime of wagons, by implementing which the downtime of wagons is significantly reduced.

For the convenience of users and to comply with the prerequisites of the rules, the Freight Transportation System (FTS) is constantly being improved. Developed WEB Service (direct connection) for transferring invoices from C-KNIS on FTS will continue to provide opportunities for customers to receive invoices in the FTS system immediately.

The improvement of the Electronic Locomotive Information System (ELIS) will be continued, providing all machinists with tablets for wider system testing in 2024.

In 2023, the modernization of the computer equipment of employees was carried out, within the framework of which all stationary computers of station employees that do not meet modern technological requirements were replaced with new ones. The modernization of computer equipment has a positive effect on the use of energy resources, as well as on the work efficiency and working conditions of employees, therefore the process will continue in 2024.

In September 2023, preparation of migration requirements for SharePoint (internal website of LDZ CARGO) was started to be able to switch to a new portal in 2024. As well as in 2024, a transition to a new external website of LDZ CARGO is planned. The optimization of IT systems users takes place, in accordance with the performance of work duties.

Taking into account that in June 2023, according to the assessment of the Sustainability Index organised by the Institute of Corporate Sustainability and Responsibility, LDZ CARGO has received the high Platinum category for the fourth year in a row, it is planned to maintain this assessment also in 2024.

- In 2024, **SIA “LDZ ritošā sastāva serviss”** will continue to perform activities for the development of service provision both in the Baltic States and outside the territory of the Baltic States. In 2024, active cooperation with foreign customers and counterparties in the field of repair of railway rolling stock is planned.

In 2024, the company will continue to participate in public procurement procedures and procurements for repairs of wagons, locomotives and their aggregates announced by private companies in Lithuania, Estonia, Poland, Azerbaijan, Georgia and other countries of Europe and Asia. In parallel, daily monitoring is carried out by analysing public procurements of other countries.

The Company maintains its “CEPT ACY” certificate, which provides an opportunity to provide locomotive repair services to the owners of Ukrainian-based locomotives to be promptly ready to provide these services to Ukrainian customers when possible and necessary.

The company maintains an active communication with other foreign cooperation partners to better represent its interests abroad, which can improve its competitiveness in foreign markets. On behalf of the company’s management, potential foreign cooperation partners are also contacted; cooperation offers are sent both in writing and meetings are organised in person.

In 2024, the company will participate in the international railway exhibition “Innotrans 2024”, which will take place in Germany with the aim of expanding the range of suppliers of spare parts and materials, as well as conducting negotiations with potential and existing customers on the maintenance and execution of orders for maintenance and repair of railway rolling stock.

As a result of the war and the sanctions imposed, the supply of spare parts has become increasingly difficult. Therefore, solutions are being actively introduced to facilitate the purchase of spare parts from manufacturers in the European Union. The company has active cooperation with wholesalers who buy and sell locomotive and waggon spare parts from European companies.

The company will continue active cooperation with companies in the rail sector in the EU, to implement locomotive modernization projects.

In 2024, the company plans to continue to optimise production processes, make full use of the existing company's capacity and labour resources, continue to develop and digitize internal processes. The company plans to continue the processes of renovation and modernization of production facilities and buildings, as well as to promote the company's recognition, and participate in exhibitions and other events related to the railway industry and related events.

In 2024, the company, to reduce production costs, plans to continue the previously launched implementation of the energy efficiency improvement program.

- The goals of **SIA "LDZ Loģistika"** are to increase the volume of transportation by developing intermodal and multimodal logistics offers, creating strategic partnerships, mastering existing and new markets, attracting new customers and new cargo flows to the Latvian transit industry, developing marketing and sales of logistics offers. In addition, it is planned to promote domestic rail freight transport by promoting the use of public-use railway infrastructure and creating development opportunities to support the Latvian economy. Achieving the goals also requires the accumulation of competencies of logistical excellence, experienced and qualified personnel.

The business plan of SIA "LDZ loģistika" until 2025 is based on the company's vision as a strong player in the logistics industry, setting as the main priorities in the period until 2025 cooperation with ports, terminals, sea carriers and road carriers, increasing the volume of cargo, increasing the share of container transportation, development of a basket of 3PL services, as well as moving towards the creation of freight corridors both for the provision of interstate transportation, both for the provision of regional or national freight transport.

- **SIA "LDZ apsardze"** works in accordance with the *Group's* strategy and its goals, which provides for a change in the business model of the *Group* and its companies.

The key purpose of the company's existence (Mission) is to ensure the provision of high-quality, modern and competitive security services to the *Group's* companies and customers outside the *Group*, carrying out sustainable management and growth of the funds invested by SIA "LDZ apsardze".

In 2023, SIA "LDZ apsardze" fulfilled the primary financial goal regarding the payment of dividends to the company's shareholder in the amount of EUR 116 thousand. The positive growth of 2023 and the profitability of the core business will also ensure that the set goal is met next year.

- The medium-term strategy (Strategy) of **AS "LatRailNet"** defines the main directions of economic activity and development of AS "LatRailNet", plans the activities of AS "LatRailNet", the share of profit to be paid in dividends and the budget. In developing the Strategy, the long-term goals of AS "LatRailNet" were defined, taking into account the business direction of VAS "Latvijas dzelzceļš", the management process and the development strategies of its dependent companies for the period up to 2030.

The Strategy of AS "LatRailNet" has been developed on the basis of the resources at the disposal and planned of the company, a thorough assessment of the activities of AS "LatRailNet" and the relevant market, setting goals and objectives to be achieved within the framework of the Strategy, determining performance indicators. The strategy has been developed in mutual cooperation with the holder of the capital shares of AS "LatRailNet" – LDz, the council and the board of AS "LatRailNet", as well as by interviewing interested parties.

The Strategy defines the mission and vision of AS "LatRailNet" – to develop as a competence centre for sustainable and smart railway mobility, based on the values of AS "LatRailNet". AS "LatRailNet"'s performance and efficiency will be evaluated in accordance with the provisions laid down in its Strategy and its subordinate planning documents, in accordance with the procedures outlined by the Cabinet for evaluating the company's performance and financial indicators.

The Strategy includes AS "LatRailNet" business model blocks, or actions, that are interrelated using a balanced control card:

- **Customers:** to ensure the full provision of essential functions on the state infrastructure;
- **Internal processes:** development of processes for managing human capital and ensuring publicity;
- **Learning and growth:** ensuring that the sector is informed about sustainability issues;
- **Finance:** value-for-money achieved.

The company has set general financial objectives. Taking into account the financial objectives, the financial forecast results have been obtained.

4. RESEARCH AND DEVELOPMENT ACTIVITIES

In 2023, the amount of research and development activities carried out in the *Group* companies totalled EUR 5,028 thousand, of which EUR 4,862 thousand was spent on internal research and development expenses of the *Group* companies, while external research and development expenses amounted to EUR 166 thousand. In 2022, the total amount of research and development costs amounted to EUR 1,367 thousand.

In 2023, **Latvijas dzelzceļš** performed research and development works for EUR 5,000 thousand, of which internal research and development activities were EUR 4,851 thousand, expenditure on research and development activities commissioned by other institutions, enterprises, organisations – EUR 149 thousand.

In 2023, **SIA “LDZ CARGO”** carried out research and development activities for EUR 28 thousand, of which the company's internal expenses were EUR 11 thousand, expenditure on research and development works commissioned by other institutions, companies, organizations – EUR 17 thousand. SIA “LDZ CARGO” has received the European Single Safety Certificate for transportation in the Baltic States in order to diversify market risks and expand its area of activity, has set as one of its goals the expansion of its activities in the territory of Lithuania. In order to evaluate the Lithuanian rail freight market, a study “Rail freight market research in Lithuania” was carried out in cooperation with Riga Technical University. The study included data collection, analysis and conclusions on the Lithuanian market.

In 2023, the 2M62UM locomotive was tested for electromagnetic compatibility and compliance with the European standard, to extend the operating area of 2M62U locomotives in the Baltic States.

To determine the impact of the human factor risk in the processes of shipping services, the road traffic accidents that occurred in the period from 2015 to 2022 were analysed in cooperation with the researcher of the RTU Transport Institute as part of the preparation of the scientific article and the influence of the human factor on the causes of accidents was identified.

In 2023, by supporting the education of new specialists in the industry, LDZ CARGO provided internships for students of the study programme “Railway Engineering” of the Faculty of Mechanical Engineering, Transport and Aeronautics of Riga Technical University, as well as for students of Riga State Technical College and Liepaja State Technical College.

In 2023, LDZ CARGO continued educating of its employees, providing training both within the company and attracting external resources to employees of all levels. In the second half of 2023, in cooperation with the Commercial Education Centre LDZ CARGO, training on stakeholder mapping and change management was organised for managers for all levels. At the end of 2023 three company's managers have graduated from the *Latvijas dzelzceļš* Management Academy, acquiring new knowledge and broadening their professional horizons.

5. NON-FINANCIAL STATEMENT

In 2023, Latvijas Dzelzceļš Group employed an average of 6,219 people, some of whom live and work in regions, including cities and towns where relatively few jobs are available in the market. Working in the *Group* enables these employees to provide for their families, pay taxes for their future and for the needs of the municipal budget, as well as make other indirect investments in the Latvian economy.

The employees of Latvijas dzelzceļš Group, who work both in the parent company and in subsidiaries, ensure the maintenance and development of publicly available railway infrastructure, the sale of passenger and freight transport, maintenance and repair of rolling stock and other services, thus making a significant contribution to the accessibility of public transport and the overall mobility of Latvian population and freight transport.

The corporate values of Latvijas Dzelzceļš Group, as well as the principles of professional conduct and ethics, which ensure action against possible corruption, the emergence of conflict of interest situations, illegal use of inside information, and any other illegal and unethical actions, are laid down in the Code of Ethics of Latvijas Dzelzceļš Group.

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

One of the basic ethical principles, which is both enshrined in the Code of Ethics and implemented in everyday life, is the principle of equality: in employment relationships no preference is given to representatives of a particular race, skin colour, gender, age, religious, political or other convictions or depending on national or social origin, wealth or marital status, sexual orientation or other circumstances, but employment relationships are based solely on professional criteria.

Employees in the *Group* are not discriminated based on their nationality. The *Group* 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.

Railway operations are also closely related to environmental factors and its impact on the quality of people's life. One of the topical issues relates to noise from rail traffic, in particular freight traffic, and its impact on the health and well-being of people living nearby railway. In order to reduce the impact caused by noise and vibrations, the "VAS "Latvijas dzelzceļš" action plan for noise reduction until 2023" has been developed and is being implemented, which defines tasks and objectives for noise reduction for railway lines with traffic intensity of more than 30,000 trains per year. In 2023, based on the strategic noise maps approved by the Ministry of Transport in 2022, *Latvijas dzelzceļš* developed an Action Plan for Noise Reduction for the period from 2024 to 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 Group has implemented the Personnel management and remuneration policy, which is binding on the Group's parent company, VAS "Latvijas dzelzceļš", as well as its subsidiaries. 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.

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 *Group's* strategic goals is to reduce the number of injuries and fatalities in train collisions. Thus, the *Group's* Road safety policy is one of the basic elements of the entity's safety management system. The purpose of the policy is to determine uniform principles and courses of action for the management of road safety, observing the requirements of the laws and regulations governing the field of road safety to prevent the occurrence of unacceptable risks. In addition to improvements in infrastructure safety, one of the options is to inform and educate the public about safe behaviour in the vicinity of railway infrastructure and the crossing of tracks.

VAS "Latvijas dzelzceļš" annually organizes safety campaigns aimed at informing and educating the public about safety in the vicinity of railways. In 2023, representatives of *Latvijas dzelzceļš* also conducted safety lessons in schools and preschool educational institutions, where children are trained in an age-appropriate way how to behave correctly and safely near the railway and on the train, as well as learn a lot of interesting things about railways.

The fulfilment of the non-financial objectives set out in the 2023 budget of VAS “Latvijas dzelzceļš” is as follows:

STRATEGIC DIRECTIONS	PERFORMANCE INDICATORS	2023 BUDGET	2023 ACTUAL
Governance	Operating costs of railway infrastructure per km of 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, number	1.1	0.68
Mobility	The average speed of a passenger train station, 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%
	Transported rail freight using LDz infrastructure network, million t	15.9	15.6
Sustainability and Human capital	Sustainability Index, level	Gold	Gold
	Employee satisfaction rating, %	75.0%	74.0%

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

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 the management of railway infrastructure control and safety systems and actively manages risks related to railway road safety. The safety management system established by VAS “Latvijas dzelzceļš” is integrated into the management and operational processes and includes the procedures necessary for compliance with the special requirements for the safe development, maintenance and operation of the railway infrastructure, including also the procedures for the maintenance and operation of the traffic control and signalling system, and the management of personnel competencies.

In order to monitor the state of road safety within the framework of the “Road safety policy” of the Latvijas Dzelzceļš Group, a system of internal monitoring of road safety has been introduced, which is a periodic set of preventive measures. The main tools of the system are monitoring the state of road safety, inspections of railway infrastructure, various inspections, technical audits, technical training for railway experts and road safety briefings.

Under the risk management policy of Latvijas Dzelzceļš Group, regardless of individual risk assessments and control measures taken, the risk to Road safety has been identified as a priority risk in decision-making within the *Group* and road safety risk mitigation and control measures shall be implemented as a priority.

Environmental risks

The Latvijas Dzelzceļš Group companies manage risks in order to ensure compliance of activities with the requirements of the legislation adopted at the EU and national level, including those related to climate control and the environment, and the integration of requirements into the activities of *Latvijas dzelzceļš*, as well as to ensure compliance with the global climate requirements. The existing environmental risk management includes the transposition of external regulation into the environmental and energy management policy of Latvijas dzelzceļš Group and the resulting regulations, the Environment and Energy Management Programme:

- The *Group* has implemented a certified environmental and energy management system (continuous analysis of significant energy consumption areas and environmental impacts) under ISO 50 001:2018 and ISO14 001:2015 standards requirements.
- 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 entity in the areas of environmental and energy management.
- Civil defence and disaster prevention trainings are organised together with other government agencies.
- The *Group* promotes environmentally friendly thinking among employees, thus making an indirect contribution to environmental protection, which is not limited to economic activity.

Workplace risks

In ensuring the primary activities of the *Group* companies, the works are carried out near the tracks, i.e., the employees work in hazardous conditions, and each of them must strictly comply with all occupational health and safety requirements, including the wearing of high visibility protective clothing and exerting constant vigilance over the movement of the rolling stock within the defined work area. Risk management is ensured 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, the “Model content and structure of the occupational health and safety instructions” (Annex 2 to Cabinet Regulation No. 749 of 10.08.2010) was used as a basis to develop the occupational health and safety instructions that cover the safe sequence of starting, performing and finishing work, as well as occupational safety requirements in emergencies.

Risks of fraud, corruption, and conflict of interest

In their daily work, the Latvijas Dzelzceļš Group companies comply with the basic requirements for the prevention of fraud, corruption, and conflict of interest. The *Group* implements the Fraud prevention policy, which forms an internal control environment to ensure the prevention of fraud, corruption, and conflicts of interest, the operation of the whistleblowing system, and the compliance of daily actions with the legislation.

The Code of Ethics of Latvijas dzelzceļš Group defines the basic principles of professional ethics and conduct of employees. By signing the agreement, the *Group's* cooperation partners confirm that they have read the basic principles of business ethics of Latvijas dzelzceļš Group's cooperation partners published on the *Group's* website www.ldz.lv, comply with them and undertake to continue to strictly observe them and ensure that their employees and subcontractors related to the performance of the contract comply with them.

Compliance risks

The *Group's companies* manage the risks and take the necessary measures to ensure compliance with the activities. The *Group* implements a unified policy of legal security with the aim of ensuring uniform and correct application of the applicable legal provisions. The activities of the companies of the *Group* are organised taking into account the requirements of external legislation, including the regulation of international sanctions.

Risk to reputation

The Latvijas dzelzceļš Group companies take measures to prevent and mitigate reputational risks, both as a result of intentionally or unintentionally caused external events, as well as due to an internal communication error or inappropriate actions of employees. In order to manage risk in everyday processes, potential communication topics and communication risks are identified in a timely manner, constant monitoring of the media, public environment and public opinion is carried out, communication about the *Group's* activities is ensured, public awareness and understanding of the *Group's* activities and its topicalities is promoted.

7. FOREIGN BRANCHES AND REPRESENTATIVE OFFICES

Latvijas dzelzceļš does not have foreign branch or representative offices.

In February 2023, the representative office of *Latvijas dzelzceļš* in Moscow, the capital of Russia, which has existed since 2012, was closed down.

In December 2023, the representative office of *Latvijas dzelzceļš* in Minsk, the capital of Belarus, which has existed since 2017, was closed down.

On 19 June 2023, SIA "LDZ CARGO" registered a branch in Estonia.

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

The external factors relating to the geopolitical situation, the war in Ukraine and the international economic sanctions imposed on Russia and Belarus, as well as the consequences of the COVID-19 coronavirus pandemic, indicate that the situation in terms of freight volumes will not improve significantly in the future. The *Company* estimates that 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, extensive economic and political sanctions were imposed on Russia and Belarus. 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. Considering 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 a sanctions policy that ensures a uniform approach to sanctions checks across the *Group*.

3) In assessing the risks related to significantly expanded lists of sectoral sanctions, the *Company* strengthened freight inspection procedures by increasing the assessment of cargo types and their compliance with the established sectoral sanctions.

4) The *Company's* sanctions system (IS) Sanctions keeps track of all persons listed in sanctions lists, 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 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 related to 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 main task of *Latvijas dzelzceļš* is to ensure the managing of the state public-use railway infrastructure and to provide safe, high-quality, and efficient railway services in the interest 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.

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*.

9. EVENTS AFTER THE DATE OF PREPARATION OF THE ANNUAL REPORT FOR 2023

Since the end of the reporting year, there have been no events that would have had a material impact on the information presented in the consolidated financial statements for 2023.

10. STATEMENT ON THE RESPONSIBILITY OF THE BOARD

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

The consolidated financial statements on pages 18 to 60 have been prepared based on the accounting records and supporting documents and give a true view of the *Group's* financial position as at 31 December 2023, and of its performance and cash flows for 2023.

The above-mentioned consolidated financial statements have been prepared in accordance with the IFRS accounting standards adopted in the European Union (EU), using a going concern basis. In the course of preparing consolidated financial statements, the decisions made and the assessments made by *Management* have been prudent and reasonable.

The *Group's Management* is responsible for ensuring an appropriate accounting system, preserving the *Group's* assets, as well as detecting and preventing fraud and other irregularities committed within the *Group*. The *Management* is responsible for fulfilling the requirements of the legislation of the Republic of Latvia.

Riga, see the date on the timestamp

Chairman of the Board

R. Pļavnieks

Member of the Board

V. Balode-Andrūsa

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

FOR 2023

(EUR'000)

	NOTES	2023	2022
Revenue	4	263,529	254,788
Other income	5	26,859	27,580
Total operating income		290,388	282,368
Cost of goods, materials and services	6	(89,040)	(84,323)
Personnel expenses	7	(133,961)	(124,314)
Depreciation, amortisation and impairment	8	(54,635)	(60,888)
Other expenses	9	(9,509)	(13,148)
Total operating expenses		(287,145)	(282,673)
Operating profit / (loss)		3,243	(305)
Finance income	10	65	-
Finance costs	10	(4,522)	(1,803)
Losses before corporate income tax		(1,214)	(2,108)
Corporate income tax	11	(2,017)	(260)
Loss for the reporting year		(3,231)	(2,368)

Notes on pages 25 to 60 form an integral part of these consolidated financial statements.

Riga, see the date in the timestamp

Chairman of the Board

R. Pļavnieks

Member of the Board

V. Balode-Andrūsa

The annual report was prepared by VAS "Latvijas dzelzceļš" Finance Department,
Deputy Finance Director for Economic Matters

T. Labzova-Ceicāne

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR 2023

	(EUR'000)	
	2023	2022
Loss for the reporting year	(3,231)	(2,368)
Items that will not be reclassified in the Consolidated income statement:	(2,488)	(7,105)
<i>Write-off of revalued property, plant and equipment</i>	<i>(2,488)</i>	<i>(7,105)</i>
Other expenses for the reporting year	(2,488)	(7,105)
Comprehensive expenses for the reporting year	(5,719)	(9,473)
<i>Comprehensive expenses for the reporting year attributable to the shareholder of the Group's parent company</i>	<i>(5,719)</i>	<i>(9,473)</i>

The Notes on pages 25 to 60 form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

ASSETS	NOTES	31.12.2023	31.12.2022
Long-term investments			
Property, plant and equipment	13	694,812	680,373
Intangible assets	12	4,347	3,488
Right-of-use assets	14	3,578	5,557
Advance payments on property, plant and equipment and intangible assets		25,871	29,787
Long-term financial investments		74	74
Total long-term investments		728,682	719,279
Current assets			
Inventories	15	13,845	14,181
Trade and other receivables	16	16,137	15,422
Accrued income	17	46,798	24,359
Cash and cash equivalents	18	39,203	80,388
Total current assets		115,983	134,350
Total assets		844,665	853,629

(continued on next page)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 (CONTINUED)

(EUR'000)

EQUITY AND LIABILITIES	NOTES	31.12.2023	31.12.2022
Equity and liabilities			
Equity			
Attributable to the shareholder of <i>the Group's</i> parent company:			
Share capital	19	327,622	327,622
Revaluation reserve for long-term investments	20	26,493	28,981
Reserves and retained earnings	20	38,114	38,857
Total equity		392,229	395,460
Obligations			
Non-current liabilities			
Deferred tax liability	11	1,781	1,863
Provisions	21	5,859	5,838
Borrowings from credit institutions	22	53,988	66,309
Taxes and national social insurance mandatory contributions	23	5,082	6,824
Payables to suppliers and contractors		767	1,356
Lease liabilities		2,163	3,378
Deferred income	24	274,888	265,445
Total long-term liabilities		344,528	351,013
Current liabilities			
Borrowings from credit institutions	22	32,321	24,247
Provisions	21	1,828	763
Trade and other payables		33,082	39,343
Taxes and national social insurance mandatory contributions	23	20,257	20,330
Lease liabilities		1,442	2,234
Deferred income	24	18,978	20,239
Total current liabilities		107,908	107,156
Total liabilities		452,436	458,169
Total equity and liabilities		844,665	853,629

Notes on pages 25 to 60 form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR'000)

	ATTRIBUTABLE TO THE SHAREHOLDER OF THE GROUP'S PARENT COMPANY				
	SHARE CAPITAL	LONG-TERM INVESTMENT REVALUATION RESERVE	RESERVES AND RETAINED EARNINGS	CURRENT YEAR PROFIT OR LOSSES	TOTAL EQUITY
	2022				
At 01.01.2022	289,142	36,086	68,691	3,909	397,828
2021 profit transferred to retained earnings	-	-	3,909	(3,909)	-
Increase of share capital	38,480	-	(38,480)	-	-
Transactions with the Group's shareholder	38,480	-	(34,571)	(3,909)	-
Disposal of revalued property, plant and equipment	-	-	7,105	-	7,105
Effect of revalued property, plant and equipment disposal on other comprehensive income	-	(7,105)	-	-	(7,105)
Loss for the reporting year	-	-	-	(2,368)	(2,368)
Comprehensive expenses for the reporting year	-	(7,105)	-	(2,368)	(9,473)
At 31.12.2022	327,622	28,981	41,225	(2,368)	395,460
	2023				
At 01.01.2023	327,622	28,981	41,225	(2,368)	395,460
2022 loss transferred to retained earnings	-	-	(2,368)	2,368	-
Transactions with the Group's shareholder	-	-	(2,368)	2,368	-
Disposal of revalued property, plant and equipment	-	-	2,488	-	2,488
Effect of revalued property, plant and equipment disposal on other combined income	-	(2,488)	-	-	(2,488)
Loss for the reporting year	-	-	-	(3,231)	(3,231)
Comprehensive expenses for the reporting year	-	(2,488)	-	(3,231)	(5,719)
At 31.12.2023	327,622	26,493	41,345	(3,231)	392,229

The Notes on pages 25 to 60 form an integral part of these consolidated financial statements.

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Deputy Finance Director for Economic Matters

T. Labzova-Ceicāne

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2023

(prepared using the indirect method)

	NOTES	2023	2022
<i>(EUR'000)</i>			
Cash flow from operating activity			
Loss before tax		(1,214)	(2,108)
Adjustments:			
Depreciation of property, plant and equipment and other impairment adjustments		34,796	44,877
Amortisation of intangible assets and other impairment adjustments	12	1,189	657
Foreign currency gains	5	(164)	(189)
Impairment loss on investments, net		-	10
Other interest income and similar income	10	(65)	-
Interest expense and similar expenses	10	4,522	1,803
Profit before adjustments for changes in the working capital		39,064	45,050
Adjustments:			
Increase / decrease in receivables		(23,103)	13,075
Decrease in inventories		388	4,600
Decrease / increase in trade and other payables		(9,617)	1,867
Gross cash flows from operating activity		6,732	64,592
Interest expense		(4,386)	(1,682)
Corporate income tax expense	11	(2,099)	(244)
Net cash flow from operating activity		247	62,666
Cash flow from investing activity			
Acquisition of property, plant and equipment and intangible assets		(66,679)	(46,294)
Proceeds from sale of property, plant and equipment and intangible assets		2,990	1,875
Subsidies or grants received	24	28,139	30,098
Interest received		65	-
Net cash outflow from investing activity		(35,485)	(14,321)

(continued on next page)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2023 (CONTINUED)

	NOTES	2023	2022
<i>(EUR'000)</i>			
Cash flow from financing activity			
Borrowings received	22	20,000	-
Borrowings repaid	22	(24,247)	(30,060)
Lease payments		(1,781)	(2,607)
Net cash outflow from financing activity		(6,028)	(32,667)
Gain on foreign exchange rate fluctuations		81	88
Change in cash and cash equivalents during the reporting year		(41,185)	15,766
Cash and cash equivalents balance at the beginning of the reporting year		80,388	64,622
Cash and cash equivalents balance at the end of the reporting year	18	39,203	80,388

The Notes on pages 25 to 60 form an integral part of these consolidated financial statements.

Riga, see the date in the timestamp

Chairman of the Board

R. Pļavnieks

Member of the Board

V. Balode-Andrūsa

The annual report was prepared by VAS "Latvijas dzelzceļš" Finance Department,
Deputy Finance Director for Economic Matters

T. Labzova-Ceicāne

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

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

NAME	TYPE OF ACTIVITY
SIA "LDZ CARGO"	freight transportation services
SIA "LDZ ritošā sastāva serviss"	maintenance and repair of rolling stock; locomotives, track machinery and plant rental services
SIA "LDZ apsardze"	security services
SIA "LDZ Loģistika"	transport forwarding and logistics services
AS "LatRailNet"	performance of the essential functions of the infrastructure manager
SIA "LDZ infrastruktūra"	liquidated on 12.04.2023

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

2. ACCOUNTING AND MEASUREMENT PRINCIPLES

These consolidated financial statements have been prepared based on the accounting and measurement principles set out below. These principles have been applied accordingly to all comparative indicators, unless otherwise stated.

2.1. ACCOUNTING AND MEASUREMENT PRINCIPLES

These consolidated financial statements have been prepared in accordance with IFRS Accounting standards (IFRS) as adopted by the EU.

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation method applied to freight transportation wagons (included in property, plant and equipment), using the going concern principle.

The consolidated financial statements cover the period from 1 January to 31 December 2023.

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

In the reporting year, no IFRS accounting standards adopted by the EU, amendments thereto or amendments to their interpretations became effective, whose adoption had a material impact on the *Company's* operations.

The following amendments or interpretations to standards that could have an impact on the *Company's* consolidated 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 financing 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 Group'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 *Group's* consolidated financial statements.

2.2. FOREIGN CURRENCY REVALUATION

Functional and presentation currency

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

Transactions and balances in foreign currencies

All transactions in foreign currency are translated into EUR at the euro reference rate published by the European Central Bank at the beginning of the transaction day. Monetary assets and liabilities denominated in foreign currency on the last day of the reporting year are presented in the consolidated financial statement translated into EUR at the foreign exchange rate published by the European Central Bank and in force at the end of the last day of the reporting year.

Exchange differences arising from settlements in foreign currencies are recognised in the Consolidated income statement.

FOREIGN EXCHANGE RATES	CURRENCY UNITS FOR 1 EUR AT 31.12.2023	CURRENCY UNITS FOR 1 EUR 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, initially recognised at cost. Intangible assets have finite useful life. Subsequently, intangible assets are carried at cost less accumulated amortisation and impairment losses.

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

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

2.4. PROPERTY, PLANT AND EQUIPMENT

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

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

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

Other categories of property, plant and equipment are accounted for using the historical cost method, whereby property, plant and equipment items are stated at cost less accumulated depreciation and accumulated impairment, if any. The acquisition cost includes the costs directly attributable to the acquisition of the property, plant and equipment. The cost of self-constructed property, plant and equipment consists of the cost of materials and direct labour costs, as well as any other costs directly attributable to bringing the asset into working condition for its intended use, and the costs of demolishing and removing the asset and restoring the site where the asset is to be located. The cost of computer software that is closely related to the functionality of the equipment and cannot be separated from it, is capitalised as part of this equipment.

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

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

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

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

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

Depreciation

Depreciation of property, plant and equipment is calculated on a straight-line basis. Depreciation is recognised in the Consolidated income statement.

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

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

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

Assets under construction

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

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

2.5. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

All the *Group's* property, plant and equipment, including the right-of-use assets, and intangible assets have a finite useful life (except for land and museum collections). Depreciable assets are reviewed whenever events or circumstances indicate that their book value may not be recoverable.

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

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

2.6. FINANCIAL INSTRUMENTS

Classification of financial instruments

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

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

Recognition and derecognition

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

Financial assets are derecognised when the *Group's* contractual obligations to the cash flows generated by the financial assets expire or when the *Group* 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 *Group* decides to buy or sell the asset.

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

Measurement

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

Financial assets at fair value through Consolidated income statement

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

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

Financial assets at amortised cost

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

Financial assets at amortised cost are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method less impairment provisions.

Cash and cash equivalents

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

Impairment of financial assets at amortised cost

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

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

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

Impairment allowance is included in a separate allowance account and a loss is recognised in the Consolidated income statement. 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 Consolidated income statement.

Financial liabilities at amortised cost

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

Financial liabilities at amortised cost are initially recognised at fair value. In subsequent periods, financial liabilities at amortised cost are measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost are classified as current liabilities if their maturity term is one year or less. If the maturity term exceeds one year, they are presented as non-current liabilities.

Borrowings

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

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

Offsetting financial assets and liabilities

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

2.7. INVENTORIES

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

When necessary, allowances are created for the impairment of obsolete, slow-moving or damaged inventories. For inventories without movement over one year, the allowances are recognised for the full amount. The change of the allowance is recognised in the Consolidated income statement.

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

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

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

2.9. RESERVES

A portion of the after-tax profit of the *Group's* parent company may be transferred to the reserve by a resolution of the *Group's* parent company's general shareholder meeting. For this purpose, "Reserves" have been set up under equity. The appropriation and distribution of reserves is the competence of the general shareholder meeting.

2.10. ACCRUED UNUSED ANNUAL LEAVE EXPENSES

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

2.11. PROVISIONS

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

If the *Group* expects to receive reimbursement for the part or full amount of the provision, the reimbursement of those costs is recognised as a separate asset if, and only if it is virtually certain that

the expenditure will be reimbursed. The costs associated with creating provision are recognised in the Consolidated income statement, net of amounts recovered.

2.12. CORPORATE INCOME TAX FOR THE REPORTING YEAR

Corporate income tax is recognised in the Consolidated income statement.

Corporate income tax is calculated in accordance with the legislation effective at the end of the reporting period. The current legislation imposes a tax rate of 20 percent on the calculated taxable base, adjusted before the application of the tax rate by dividing the taxable base by a coefficient of 0.8.

Corporate income tax, which is calculated on distribution of dividends, is presented separately in the Consolidated income statement, and otherwise as other operating expense.

Deferred tax assets or liabilities do not arise because there is no difference between the book values of assets and liabilities and their tax base. Since the *Group's* parent company controls the dividend policy of the *Group's* subsidiaries, it is also able to control the timing of the reversal of temporary differences related to investments in subsidiaries, including temporary differences arising from retained earnings. Thus, the *Group's* consolidated financial statements recognise a deferred tax liability for temporary differences arising from retained earnings by applying the tax rate applicable to retained earnings, unless the *Group* has assessed that the dividends will be distributed in the foreseeable future.

2.13. REVENUE RECOGNITION

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

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

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

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

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

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

Revenue for the freight transportation services consists of the tariff charge, plus additional charges not included in the tariff and determined under the contract. Freight transportation service charges are determined in accordance with the freight tariff, a system of rates that includes information on the distances to be covered, the procedure for calculating the charges and the freight charges, which consist of the transportation charge, charges for additional operations and other services related to the transportation. Revenue is recognised in the period in which the services are rendered.

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

The Company receives state budget grants to fully cover the costs of the passenger segment and the costs relating to passenger stations on lines where the carrying of passengers has been terminated. Revenue from the received grants (excluding VAT), is recognised in the

period in which the services are rendered, up to the amount of the funding received, in accordance with IAS 20.

- **Maintenance of service points** – services for the use of passenger stations and stops. 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 site services** - freight wagon sorting and assembly services (handling of freight wagons with or without train formation), wagon maintenance and inspection, running siding repairs, wagon storage services, etc. Revenue is recognised in the period in which the services are rendered.
- **Specific services related to the maintenance and repair of infrastructure** - construction and repair of track and bridge decks, replacement of switches, repair of railway machinery, tools and plant, modernisation of wagons, rail welding works and transportation of long rails, installation and repair of drainage systems, preparation of the ground base. Revenue is recognised when the services are rendered, or the repairs are completed.
- **Forwarding services** – development of freight transport routes, organisation of rail freight transport, including the execution of transport documents, customs formalities, dispatch/receipt of freight. Revenue is recognised in the period in which the services are rendered.
- **Electricity distribution and sale services** – the *Company* provides electricity distribution and trading services to natural and legal persons, including its subsidiaries. The cost of electricity distribution (traction substations and overhead power lines) for the traction of passenger trains is included in the charge for using the public-use railway infrastructure and are not included in this service. *Latvijas dzelzceļš* provides electricity sales services to electricity consumers by fulfilling the obligations laid down in the Electricity Market Law, the Law On Regulators of Public Utilities and Cabinet Regulation No. 50 “Regulations Regarding the Trade and Use of Electricity” (from 10.11.2023. Cabinet Regulation No. 635). *Latvijas dzelzceļš* acts as the primary service provider, thus revenues and costs are recognised in gross value. Revenue is calculated by multiplying the tariff by the number of kilowatt hours consumed and is recognised in the period when consumption was made.
- **The principal's services** include submission of the import summary declaration, customs procedures – transit clearance, temporary storage. In accordance with the agreement between *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.
- **Repair and maintenance of rolling stock** – includes the services of SIA “LDZ Ritošā sastāva serviss” related to the maintenance and repair of diesel locomotives; maintenance and repair of infrastructure road machinery; railway rolling stock service life extension works, repair of assemblies and assemblies, freight wagon depot and overhaul; extension of the service life of freight wagons; overhaul of tanks and covered wagons; with repair of track machines and inspection of technical condition. Revenue is recognised in the period when the services are provided.
- **Traction services** – SIA “LDZ CARGO” provides locomotive crew services to both *Latvijas Dzelzceļš* Group companies and other freight carriers, and other external customers to ensure their economic activity. Revenue is recognised in the period when the services are provided.
- **Electronic communications services** – data and electronic message transmission services, leased line services, access to electronic communications network infrastructure. Revenue is recognised after the actual use of the network in the relevant reporting period.
- **Information technology services** – services related to information systems for freight and passenger traffic, train movement, as well as business support, control and management information systems. Revenue is recognised in the period when the services are provided.
- **Construction services** – own construction works on railway infrastructure objects. Revenue is recognised in the period when the services are provided.
- **Storage and sale of diesel fuel** – fuel sales provided by the Crewing centre fuel base of SIA “LDZ Ritošā sastāva serviss”. This service is provided mainly to railway carriers. Revenue

from sale of diesel fuel is recognised at the point of the sale of fuel, i.e., when the fuel is filled into the vehicle. Revenue from other fuel-related services is recognised in the period in which the services are provided.

- **Non-destructive control laboratory services** – includes services related to calibration, initial and re-verification of pressure gauges; non-destructive control of assemblies and parts of railway rolling stock (by visual, ultrasonic, magnetic particle and eddy current methods); conformity assessment of railway tanks for the transport of substances of classes 3 to 9; assessment of the conformity of railway rolling stock renewal repairs with an extension of service life; the verification of geometric measuring instruments. Revenue is recognised in the period when the services are provided.
- **Security services** – SIA “LDZ apsardze” performs physical security of 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 monitoring of the received alarm signals. Revenue is recognised in the period when the services are provided.
- **Other services** – these services include commercial train inspection services, services for ensuring the operation of technological centres and drop-off points, specific services of the infrastructure manager, and various other small-scale services for legal and natural persons. Revenue is recognised in the period when the services are provided.

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

- **Leases** – the Group leases out buildings, structures, land and other property, plant and equipment that are not necessary for the operating activity, 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 for payments past the due date, are recognised in revenue only upon receipt.

Dividend income

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

2.14. LEASES

Classification

At the inception of the contract, the Group assesses whether the contract is a lease or includes a lease. A contract is or contains a lease, if the contract conveys the right to control the use of an identifiable asset for a fixed time in exchange for consideration. To assess whether a contract is or contains a lease, the Group 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 Group is entitled to obtain all economic benefits from the use of the identifiable asset throughout its period of use;
- The Group has the right to direct the use of the identifiable asset. The Group 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 Group 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 Group intends to use the asset in a predetermined manner on how and for what purpose the asset will be used.

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

Lessee's accounting

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

- initial measurement amount of the lease liability;
- 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 reduced periodically by the amount of impairment losses, if any, and adjusted for revaluation of the lease liabilities.

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

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

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

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

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

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

Lessor's accounting

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

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

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

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

Co-financing from the state budget and from EU funds that is attributable to assets (property, plant and equipment) is recognised in the balance sheet as Deferred income and recognised periodically in

the consolidated income statement in proportion to the depreciation of the relevant assets (property, plant and equipment) over their useful lives.

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

In the reporting year, the necessary financing for ensuring financial stability is recognised in other revenue in accordance with IAS 20 "Accounting for government grants". These principles provide for the recognition of a government grant when there is a reasonable assurance that the conditions attached to the receipt of the grant are met. In addition, grants relating to the compensation of costs should 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.

2.16. RELATED PARTIES

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

2.17. EVENTS AFTER THE BALANCE SHEET DATE

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

2.18. EMPLOYEE BENEFITS

Social insurance and pension plan contributions

The *Group* 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 *Group's* company is required to make contributions of the prescribed statutory amount. The *Group's* 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. BASIS OF CONSOLIDATION

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

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

The financial statements of the companies are prepared using uniform accounting and financial policies for similar transactions and other events in similar circumstances. If necessary, the *Group's* subsidiaries' accounting and measurement methods may be changed to conform to the *Group's* accounting and measurement methods. The consolidated financial statements include the annual accounts of the parent company and subsidiaries for 2023. The annual reporting periods of the *Group* companies are the same and coincide with the calendar year.

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

3. SIGNIFICANT ASSUMPTIONS AND JUDGEMENTS

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

The preparation of consolidated financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures in the notes to the consolidated financial statements at the reporting date, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The areas that are more likely to be affected by assumptions are *Management's* assumptions and estimates in determining the recoverable amount of assets and the amount of provisions.

Useful life of property, plant and equipment

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

Provisions

In estimating the amount of the provision, *Management* relies on estimates of the probable amount of the liability and the time when the liability is expected to be settled. If these events do not materialise or materialise differently, the actual cost may differ from the estimate. More detailed information on the assumptions regarding provisions is provided in Note 21.

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.

In carrying out the impairment test, all the *Company's* assets are divided into cash-generating units – geographical rail track lines. Each line has been assessed for indicators of impairment and lines with indicators of impairment have been subject to impairment test. The main indicators of impairment were the absence or decrease of passenger traffic in a particular line, as well as a significant decrease in freight traffic volumes. In 2023, freight volumes have not decreased significantly and the decrease in volumes has been compensated by maintaining revenues at the planned level and reducing costs. The projected cash flows from the previously impaired cash generated units, were reassessed. In making the calculations, it was taken into account that the Ministry of Transport, in accordance with the Directives of the European Union, in order to make the railway the backbone of traffic, intends to ensure train traffic between all major cities of Latvia as the primary mode of transport and to allocate funds for the infrastructure necessary for passenger transport. In addition, *Latvijas dzelzceļš* plans to optimise the freight handling process and, accordingly, reduce the costs of infrastructure necessary for freight transportation.

As the circumstances underlying the impairment did not change significantly in 2023, no additional impairments have been identified in 2023.

Future expected cash flows are determined based on the actual figures for 2023 and the budget for 2024, extrapolating them to the next ten 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. With the WACC reaching 7.28% (up by 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, the need to recognise additional impairments in 2023 and 2022 has not been identified. 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 term. In 2023, the discount rate (WACC) applied in the calculation of the total impairment amounted to 6.28%.

In this calculation, 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 objective 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 when there is a reasonable assurance that the conditions attached to the grant are fulfilled. In addition, grants relating to the compensation of costs should be recognised in the period in which the costs are incurred, 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

(EUR'000)

TYPES OF ACTIVITY	2023	2022
Revenue from contracts with customers (IFRS 15):		
<i>Revenue recognised over time:</i>		
Freight transportation services	107,768	119,326
Forwarding services	14,732	19,214
Charges for the use of the public-use railway infrastructure	14,040	16,074
Repair and maintenance of rolling stock	5,659	4,895
Ancillary services of the infrastructure manager	4,183	3,948
Security services	3,172	2,308
Specific services related to infrastructure maintenance and repair	1,250	653
Principal's services	1,245	1,210
Services in passenger stations	1,164	1,059
Performance of the essential functions of the railway infrastructure manager	917	775
Construction services	691	87
Traction provision services	48	38
Other services	3,504	2,411
<i>Total recognised over time</i>	<i>158,373</i>	<i>171,998</i>
<i>Revenue recognised at a point in time</i>		
Electricity distribution and trading services	16,709	10,435
Sale of fuel and oil	5,028	5,817
Electronic communications services	729	672
Information technology services	493	590
<i>Total recognised income at a point in time</i>	<i>22,959</i>	<i>17,514</i>
Total revenue from customer contracts (IFRS 15)	181,332	189,512
Other revenue (IFRS 16):		
Freight wagon lease	10,690	6,571
Other asset lease services	3,236	4,021
Total other revenue (IFRS 16)	13,926	10,592
Other revenue (IAS 20):		
Revenue from railway infrastructure maintenance (State budget funding)	35,634	30,114
Financial stability payment*	32,439	24,359
Revenue from maintenance of service points (State budget funding)	198	211
Total other revenue (IAS 20)	68,271	54,684
Total	263,529	254,788

*The necessary financial stability payment of EUR 32,439 thousand to be received during 2024, was recognised as accrued income in the statement of financial position based on the obligations and duties specified in Section 9, Paragraph 4 of the Railway Law. In 2023, to ensure financial stability, *Latvijas dzelzceļš* received EUR 10,000 thousand (partial payment for 2022).

5. OTHER INCOME

(EUR'000)

	2023	2022
Gradual recognition of deferred income	19,348	17,814
Gain on sale of inventories	2,321	374
Payments from other railway administrations for bundles settlements	2,284	2,775
Gain on sale of property, plant and equipment	1,200	1,556
Fines and periodic penalty payments	391	349
Exchange rate fluctuations	164	189
Gain on disposal of long-term assets held for sale	106	1,032
Decrease of provisions (see Note 21)	74	53
Income from of the construction project "Pedestrian tunnel in Ogre"	-	1,472
Other income	971	1,966
Total	26,859	27,580

6. COST OF GOODS, MATERIALS AND SERVICES

(EUR'000)

	2023	2022
Electricity	24,330	15,677
Heating and fuel	23,743	32,294
Cost of materials	11,342	10,873
Other expenses	29,625	25,479
Total	89,040	84,323

7. PERSONNEL EXPENSES

(EUR'000)

	2023	2022
Salaries and wages	102,848	97,827
National social insurance mandatory contributions	24,831	23,181
Other social security costs	3,001	2,661
Severance pay	2,392	649
Supplementary pension insurance for employees	578	561
Accrued liabilities for annual leaves	152	(736)
Other personnel expenses	159	171
Total	133,961	124,314
of which remuneration of members of the <i>Company's</i> Board and Council	1,524	1,610
<i>incl. remuneration for work</i>	1,233	1,303
<i>national social insurance mandatory contributions</i>	291	307

In 2023 the *Group* employed on average 6,219 employees (in 2022: 6,482).

8. DEPRECIATION, AMORTISATION AND IMPAIRMENT

(EUR'000)

	2023	2022
Depreciation of property, plant and equipment and intangible assets	52,526	53,575
Impairment of property, plant and equipment and intangible assets	62	4,946
Changes in value associated with the risk of non-return of wagons from the territory of Ukraine	(75)	363
Depreciation of right-of-use assets	1,702	2,435
Changes in provisions for obsolete materials	420	(431)
Total	54,635	60,888

9. OTHER EXPENSES

(EUR'000)

	2023	2022
Payments to other railway administrations for bundled settlements	7,438	9,848
Collective bargaining agreement costs of Latvijas Dzelzceļš Group	683	525
Losses on disposal of property, plant and equipment and assets under construction	664	256
Increase and use of provisions, net (See Note 21)	54	94
Corporate income tax on deemed distribution of profits	38	20
Fines and late payments interest	26	61
Increase of doubtful debts allowance	23	140
Foreign currency exchange rate fluctuation	23	29
Cost of the construction project "Pedestrian tunnel in Ogre"	-	1,472
Social infrastructure maintenance costs	-	12
Other expenses	560	691
Total	9,509	13,148

10. FINANCE INCOME AND EXPENSES, NET

(EUR'000)

	2023	2022
Finance income	65	-
Other interest income	65	-
Finance expenses	(4,522)	(1,803)
Bank interest, including interest on non-current borrowing	(4,056)	(1,671)
Interest expense on lease transactions	(62)	(87)
Late payment interest for extending the tax payment deadline	(404)	(45)
Finance expenses, net	(4,457)	(1,803)

11. CORPORATE INCOME TAX

Corporate income tax movement table for the reporting year

(EUR'000)

	2023	2022
Calculated for the reporting year	2,099	244
Paid in the reporting year	(2,099)	(244)

Deferred tax expense

The Group's deferred tax is calculated on the future corporate income tax payable on the 2023 retained earnings of subsidiaries, which is expected to be paid to the parent company in dividends in subsequent years, taking as a basis the amount of dividends from public capital companies as determined by the country.

	(EUR'000)	
	2023	2022
Deferred tax liability at the beginning of the year	1,863	1,847
Deferred tax liability (reduction) / increase	(82)	16
Deferred tax liability at the end of the year	1,781	1,863

12. INTANGIBLE ASSETS

	(EUR'000)	
LICENCES AND RIGHTS	2023	2022
Historical cost at the beginning of the year	13,562	8,904
Additions	968	684
Reclassified from property, plant and equipment (see Note 13)	4,942	4,021
Disposals	(2,403)	(47)
Historical value at the end of the year	17,069	13,562
Accumulated amortisation at the beginning of the year	10,058	7,065
Amortisation charge	1,189	657
Reclassified from property, plant and equipment (see Note 13)	4,597	2,383
Disposals	(2,403)	(47)
Accumulated amortisation at the end of the year	13,441	10,058
Impairment	(16)	(16)
Carrying amount at the beginning of the year	3,488	1,823
Carrying amount at the end of the year	3,612	3,488
Intangible assets in unfinished construction objects*	735	-
Intangible assets at the end of the year	4,347	3,488

*As of 31.12.2023, the intangible assets in unfinished construction objects totalled EUR 735 thousand, including EUR 87 thousand reclassified (see Note 13) of the cost of unfinished construction objects in property, plant and equipment for works carried out in previous years but not yet completed. The total amount of intangible assets (including the cost of unfinished construction) as at 31.12.2023 totalled EUR 4,347 thousand.

13. PROPERTY, PLANT AND EQUIPMENT

(EUR'000)

	Land plots	Buildings, structures and perennial plantations	Railway tracks	Long-term investments in the leased assets	Plant and machinery	Freight wagons	Computers, communication equipment, photocopiers and fittings	Other property, plant and equipment	Assets under construction	Total
Historical cost / revalued amount at 01.01.2023	1,361	152,710	642,995	161	400,043	177,700	31,546	30,138	11,983	1,448,637
Additions and construction of property, plant and equipment	-	3,977	7,398	18	6,912	2,280	2,882	1,984	44,940	70,391
Reclassified (See Note 12)	-	-	-	-	(38)	-	(4,900)	(4)	(87)	(5,029)
Disposal of property, plant and equipment	-	(2,754)	(1,540)	-	(4,484)	(2,559)	(1,323)	(479)	(499)	(13,638)
Reclassified to assets held for sale*	-	-	-	-	(47)	(883)	-	-	-	(930)
Historical cost / revalued amount at 31.12.2023	1,361	153,933	648,853	179	402,386	176,538	28,205	31,639	56,337	1,499,431
Accumulated depreciation on 01.01.2023	-	63,024	340,314	104	189,073	97,223	22,350	21,062	-	733,150
Depreciation charge	-	4,532	24,057	28	14,849	3,564	3,445	1,429	-	51,904
Reclassified (See Note 12)	-	-	-	-	(7)	-	(4,586)	(4)	-	(4,597)
Disposals	-	(2,183)	(1,235)	-	(2,945)	(1,728)	(1,243)	(424)	-	(9,758)
Reclassified to assets held for sale*	-	-	-	-	(24)	(789)	-	-	-	(813)
Accumulated depreciation at 31.12.2023	-	65,373	363,136	132	200,946	98,270	19,966	22,063	-	769,886
Impairment at 01.01.2023	(38)	(4,154)	(22,812)	-	(7,053)	(363)	(484)	(210)	-	(35,114)
Impairment adjustment for disposed property, plant and equipment	-	215	13	-	62	62**	-	16	-	368
Reclassified to held-for-sale assets*	-	-	-	-	-	(62)	-	-	-	(62)
Changes in value related to the risk of non-return of wagons from the territory of Ukraine***	-	-	-	-	-	75	-	-	-	75
Impairment at 31.12.2023	(38)	(3,939)	(22,799)	-	(6,991)	(288)	(484)	(194)	-	(34,733)
Carrying value at 01.01.2023	1,323	85,532	279,869	57	203,917	80,114	8,712	8,866	11,983	680,373
Carrying value at 31.12.2023	1,323	84,621	262,918	47	194,449	77,980	7,755	9,382	56,337	694,812

*In 2023 one diesel locomotive M62 and 41 wagons with a residual carrying amount of EUR 179 thousand, including impairment of property, plant and equipment in the amount of EUR 62 thousand, were reclassified to held-for-sale and sold;

**In 2023, an impairment was recognised in the amount of EUR 62 thousand for 23 wagons reclassified to held-for-sale assets and sold during the reporting year;

***Reversal of previously recognised impairment by the amount of EUR 75 thousand related to 7 individual assets (wagons) located on the territory of Ukraine.

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

(EUR'000)

	Land plots	Buildings, structures and perennial plantations	Railway tracks	Long-term investments in the leased assets	Plant and machinery	Freight wagons	Computers, communication equipment, photocopiers and fittings	Other property, plant and equipment	Assets under construction	Total
Historical cost / revalued amount at 01.01.2022	1,361	152,937	640,049	139	393,515	183,332	30,296	30,026	4,161	1,435,816
Additions and construction of property, plant and equipment	-	1,173	4,950	22	4,712	3,975	1,531	835	7,910	25,108
Receipt of property, plant and equipment from the Ministry of Transport (as part of the Rail Baltica project, see Note 24)	-	588	-	-	969	-	4,523	4	-	6,084
Reclassified (See Note 12)	-	(11)	14	-	35	-	(4,021)	-	(38)	(4,021)
Disposal of property, plant and equipment	-	(1,977)	(2,018)	-	(1,692)	(9,607)	(783)	(727)	(50)	(16,854)
Reclassified from held-for-sale assets	-	-	-	-	2,504	-	-	-	-	2,504
Historical cost / revalued amount at 31.12.2022	1,361	152,710	642,995	161	400,043	177,700	31,546	30,138	11,983	1,448,637
Accumulated depreciation at 01.01.2022	-	60,656	315,655	81	176,289	100,549	23,226	20,282	-	696,738
Depreciation charge	-	4,281	26,583	23	14,186	3,959	2,289	1,475	-	52,796
Reclassified (See Note 12)	-	-	-	-	-	-	(2,383)	-	-	(2,383)
Disposals	-	(1,913)	(1,924)	-	(1,402)	(7,285)	(782)	(695)	-	(14,001)
Accumulated depreciation at 31.12.2022	-	63,024	340,314	104	189,073	97,223	22,350	21,062	-	733,150
Impairment on 01.01.2022	(38)	(4,066)	(16,911)	-	(7,050)	-	(484)	(210)	-	(28,759)
Impairment recognised	-	(88)	(5,901)	-	(3)	(363)	-	-	-	(6,355)
Impairment at 31.12.2022	(38)	(4,154)	(22,812)	-	(7,053)	(363)	(484)	(210)	-	(35,114)
Carrying value at 01.01.2022	1,323	88,215	307,483	58	210,176	82,783	6,586	9,534	4,161	710,319
Carrying value at 31.12.2022	1,323	85,532	279,869	57	203,917	80,114	8,712	8,866	11,983	680,373

14. RIGHT-OF-USE ASSETS

(EUR'000)

	Right-of-use land plots	Right-of-use buildings and structures	Right-of-use tracks	Right-of-use plant and machinery	Right-of-use computers, communication equipment, photocopiers and fittings	Right-of-use other property, plant and equipment	Total
Historical cost at 01.01.2023	474	4,795	2,497	628	1,020	4,596	14,010
New lease agreements	-	-	-	-	-	265	265
Amendments to contracts and termination of contracts	23	(239)	(2,497)	(628)	(1,020)	(257)	(4,618)
Historical cost at 31.12.2023	497	4,556	-	-	-	4,604	9,657
Accumulated depreciation at 01.01.2023	248	2,114	2,004	504	971	2,612	8,453
Depreciation charge	70	516	75	19	49	1,018	1,747
Disposals	(7)	(200)	(2,079)	(523)	(1,020)	(292)	(4,121)
Accumulated depreciation at 31.12.2023	311	2,430	-	-	-	3,338	6,079
Carrying value at 01.01.2023	226	2,681	493	124	49	1,984	5,557
Carrying value at 31.12.2023	186	2,126	-	-	-	1,266	3,578

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

15. INVENTORIES

	(EUR'000)	
	31.12.2023	31.12.2022
Spare parts	8,959	8,424
Road surface materials	4,292	4,092
Other materials	3,584	3,880
Heating and fuel	1,874	2,398
Advance payments for inventories	89	2
Other inventories and work-in-progress	53	66
Gross carrying amount	18,851	18,862
Impairment of obsolete materials	(3,037)	(2,618)
Impairment of unused inventories	(1,969)	(2,063)
Net book value	13,845	14,181

16. TRADE AND OTHER RECEIVABLES

	(EUR'000)	
	31.12.2023	31.12.2022
Trade receivables	10,389	10,263
Overpaid value added tax	2,593	2,384
Doubtful debts	1,157	1,154
Other receivables	3,155	2,775
Gross carrying amount	17,294	16,576
Expected credit losses	(1,157)	(1,154)
Book value	16,137	15,422

Movement table of provisions for expected credit losses:

	(EUR'000)	
	2023	2022
Provisions for expected credit losses at the beginning of the year	1,154	1,059
Reduction of provisions due to debt recovery	(122)	(22)
Reduction of provisions due to the write-off of receivables	(24)	(58)
Additional provisions created	149	175
Provisions for expected credit losses at the end of the year	1,157	1,154

In order to estimate the expected credit losses, receivables were grouped according to their risk characteristics and days past due (details are also provided in Note 25). The expected loss rates are based on historical repayment rates determined as the ratio of lost debts to eligible revenue over the past 36 months (counting from 31 December 2023 or 1 January 2023, respectively). Historical loss indicators were adjusted to reflect current and forecasted information on macroeconomic factors affecting buyers' ability to pay with the *Group*. GDP forecasts are considered the most significant factor since they are most directly affected by changes in bad receivables.

In carrying out these calculations, on 31 December 2023 and 1 January 2023, provisions for trade receivables that were not overdue or were overdue for less than 6 months late have been immaterial, thus being recognised at zero in the consolidated financial statements.

Similar calculations were made for other debtors, as well as for cash and cash equivalents, except that these calculations were based not on historical experience, but on the default rates of external

credit rating agencies for similar borrowers or groups of borrowers. This approach has been chosen because the *Group* has no historical data regarding losses for these groups of financial assets. As a result of the calculations, it was concluded that the credit quality of those assets is good, so that the expected credit losses on 31 December 2023 and 1 January 2023 are not material, thus being recognised at zero.

According to the *Group's* accounting policy, for trade receivables that are more than 6 months past due, a provision is usually made for expected credit losses of 100%, making adjustments only to reflect the possible recoverability of such debts.

17. ACCRUED INCOME

	(EUR'000)	
	31.12.2023	31.12.2022
Accrued income	46,798	24,359
Total	46,798	24,359

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

The criteria for the *Company* to receive the financial stability payment are the non-fulfilment of the financial stability conditions provided for in Section 9, Paragraph 4 of the Railway Law. Taking into account the fact that in 2023 the *Company* did not fulfil the intended conditions for financial stability, the criteria for receiving financial stability payments under the procedures laid down in the Railway Law were fulfilled accordingly. Financial stability payments are recognised as revenue for 2023.

The required payment of financial stability of EUR 32,439 thousand, to be received in the future, recognised as "Accrued income" in the Statement of financial position based on the obligations and obligations specified in Section 9, Paragraph 4 of the Railway Law. In 2023, to ensure financial stability, *Latvijas dzelzceļš* received EUR 10,000 thousand (partial payment for 2022).

18. CASH AND CASH EQUIVALENTS

	(EUR'000)	
	31.12.2023	31.12.2022
Cash in bank	39,203	80,389
Cash in transit	-	(1)
Total	39,203	80,388

19. SHARE CAPITAL

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

The share capital of *Latvijas dzelzceļš* is EUR 327,621,636, which consists of three hundred twenty-seven million six hundred twenty-one thousand six hundred thirty-six shares, with a nominal value of one share of EUR 1 (one EUR).

All shares are owned by the Republic of Latvia and are fully paid up. The holder of the state capital share in a joint stock company is the Ministry of Transport. All shares of the *Group's* Parent company have equal rights to receive dividends, receive a liquidation quota, and voting rights at the General Meeting of Shareholders.

20. LONG-TERM INVESTMENT REVALUATION RESERVE, OTHER RESERVES AND RETAINED EARNINGS

Wagons for freight transport, which are part of the railway rolling stock, are recorded in the Group using the revaluation method. In 2013, these property, plant and equipment items were revalued and the increase in value was reported as a reserve for the revaluation of long-term investments (net of tax effect). In 2022, SIA "LDZ CARGO" carried out the valuation of the group of property, plant and equipment "Wagons for cargo transportation" using the market method, because a sufficiently active and liquid secondary market was identified for most of the valued property, plant and equipment, and market prices were used when making the valuation. The determination of the value of property, plant and equipment was carried out by an external certified appraiser, assessing the potential market value of the wagons and using the method of residual replacement of the asset within the cost approach. Consequently, the value of the wagons is considered to correspond to the level 3 valuation technique. The fair value as at 30 November 2022, was determined under the market method, and did not differ significantly from the carrying amount of assets.

The remaining reserves consist of retained earnings of previous periods, which, by the decision of the owner, were transferred to other reserves for the development of the *Group*. Consequently, reserves and retained earnings of previous periods do not differ in their nature and, therefore combined into one balance sheet item. The procedure for the use of the reserves of the parent company of the Group and the retained earnings of previous years shall be determined by the General Meeting of Shareholders of the *Group's* parent company.

21. PROVISIONS

	31.12.2023	31.12.2022
Provisions for fines imposed by the Competition Council	5,694	5,694
Other provisions	165	144
Total non-current portion	5,859	5,838
Provisions for severance pay	1,615	498
Provisions for benefits up to the time of the vesting of pension rights	82	93
Other provisions	131	172
Total current portion	1,828	763
Total	7,687	6,601

Movement table of provisions by type of provision in 2023

	At 01.01.2023	INCREASE IN PROVISIONS	DECREASE IN PROVISIONS	31.12.2023
Provisions for fines imposed by the Competition Council	5,694	-	-	5,694
Severance pay	498	1,117	-	1,615
Provisions for costs of injuries at work	144	21	-	165
Provision for contingent losses from legal proceedings	103	-	(74)	29
Provisions for benefits until the vesting of pension rights	93	-	(11)	82
Provisions for warranty repairs	47	33	-	80
Provisions for transportation of unsaved freights	22	-	-	22
Total	6,601	1,171	(85)	7,687

Movement table of provisions by type of provision in 2022

(EUR'000)

	At 01.01.2022	INCREASE IN PROVISIONS	DECREASE IN PROVISIONS	31.12.2022
Provisions for fines imposed by the Competition Council	5,694	-	-	5,694
Severance pay	997	498	(997)	498
Provisions for costs of injuries at work	132	12	-	144
Provision for contingent losses from legal proceedings	21	82	-	103
Provisions for benefits until the vesting of pension rights	735	-	(642)	93
Provisions for warranty repairs	81	-	(34)	47
Provisions for transportation of unsaved cargoes	41		(19)	22
Total	7,701	592	(1,692)	6,601

In 2018, the Competition Council initiated the case No. KL\5-5\18\30 "On violation of the prohibition stipulated in the Section 13(1) of the Competition Law in the activities of SIA LDZ Cargo and VAS Latvijas dzelzceļš in the railway freight transport market in Latvia". By decision of the Competition Council (CC) of 28.12.2020 LDZ CARGO was fined EUR 5,694,174 jointly and severally with VAS "Latvijas dzelzceļš". LDZ CARGO considers that the decision was based on erroneous conclusions drawn due to a lack of understanding of the specific nature of the carrier's activities. The decision of the Competition Council in the case No. KL\5-5\18\30 was appealed to the Administrative Regional Court in order to declare it unfounded and cancel it in its entirety. The Administrative Regional Court has initiated the case No. A43001921, and the case is now pending. It is not possible to predict the outcome of the case, nor to foresee additional risks related to the possible claims of other persons whose rights may have been affected in the event that the decision of the Competition Council is not overturned. A provision of EUR 5,694,174 was created in 2020 for these contingent losses, while the amount of the provision remained unchanged in 2023 due to the unchanged circumstances and unknown outcome of the case.

22. BORROWINGS FROM CREDIT INSTITUTIONS

(EUR'000)

	31.12.2023	31.12.2022
Non-current borrowings from credit institutions	53,988	66,309
Current borrowings from credit institutions	32,321	24,247
Total borrowings from credit institutions	86,309	90,556

The borrowings were received from AS "Swedbank", AS "SEB banka", Nordic Investment Bank, OP Corporate Bank branch in Latvia, and Luminor Bank AS Latvian branch. In the reporting period, borrowings received totalled EUR 20,000 thousand, and borrowings repaid totalled EUR 24,247 thousand.

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 complied with during the term of the loan agreement. As at 31 December 2022, as at 31 December 2023 and the beginning of 2024, none of the non-current borrowings was in default.

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

CURRENCY OF THE BORROWING	BORROWING, EUR'000	INTEREST RATE
EUR	69,872	3M EURIBOR + 0.77% to 3.5%
	16,437	6M EURIBOR + 0.75% to 1.1%
Total	86,309	

Borrowings repayable and interest rates on borrowings as at 31 December 2022:

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

Borrowings and calculated interest movement table

(EUR'000)

	2023	2022
Borrowings and calculated interest at the beginning of the reporting period	90,761	120 699
Borrowings received in the reporting period	20,000	-
Calculated interest in the reporting period	4,056	1,671
Borrowings repaid in the reporting period	(24,247)	(30,060)
Interest paid during the reporting period	(3,921)	(1,549)
Borrowings and calculated interest at the end of the reporting period	86,649	90,761

23. TAXES AND NATIONAL SOCIAL INSURANCE MANDATORY CONTRIBUTIONS

(EUR'000)

TYPE OF TAX	TAX LIABILITIES (+) AT 31.12.2023	TAX OVERPAID (-) AT 31.12.2023	TAX LIABILITIES (+) AT 31.12.2022	OVERPAID TAXES (-) AT 31.12.2022
National social insurance mandatory contributions	9,284	-	15,066	-
Personal income tax	8,476	-	6,269	-
Value added tax	6,809	(2,593)	5,034	(2,384)
Excise duty	646	-	726	-
State duty for storage of security reserves	87	-	28	-
Natural resources tax	20	-	25	-
Corporate income tax	5	-	3	-
Business risk duty	2	-	2	-
Company car tax	1	-	1	-
The balance on the single tax account	-	(71)	-	(23)
Tax liabilities abroad (Estonia)	9	-	-	-
Total	25,339*	(2,664)	27,154	(2,407)

*Breakdown of liabilities at 31.12.2023: non-current portion – EUR 5,082 thousand; current portion – EUR 20,257 thousand.

As of 31.12.2023, the Group has no overdue payments to the budget.

Under non-current liabilities, based on the decision of the State Revenue Service of 20.12.2022 “On the extension of payment deadlines”, the amounts of personal income tax and value added tax of *Latvijas dzelzceļš*, for which the payment deadline is longer than one year, are recognised. The extension of the deadline for paying taxes for another five years has been re-granted for tax amounts that arose during the COVID-19 emergency.

24. DEFERRED INCOME

	31.12.2023	31.12.2022
Non-current portion of deferred income (EU funds and state budget resources)	274,799	265,379
Other deferred income	89	66
Total non-current portion	274,888	265,445
Current portion of deferred income (EU funds and state budget resources)	18,731	19,360
Other deferred income	247	879
Total current portion	18,978	20,239
Total deferred income	293,866	285,684

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:

DEFERRED INCOME	BALANCE AT 01.01.2023	RECLASSIFIED (TRANSFERRED)	RECEIVED FUNDS	TRANSFER OF FUNDS TO THE PARTNER	DECREASE IN THE PROPERTY, PLANT AND EQUIPMENT DEPRECIATION CHARGE	BALANCE AT 31.12.2023
Non-current portion	265,379	(18,719)	28,203	(64)	-	274,799
Current portion	19,360	18,719	-	-	(19,348)	18,731
Total	284,739	-	28,203	(64)	(19,348)	293,530

EU funds received in 2023:

- EUR 7,657 thousand for the project “Modernisation of railway passenger infrastructure”,
- EUR 20,052 thousand for the project “Modernisation of railway infrastructure to increase the speed of trains”,
- EUR 355 thousand for the project “Installation of fencing and pedestrian crossings in railway infrastructure facilities”, and
- EUR 139 thousand for the project “Development of 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 of the financing transferred EUR 64 thousand to AS “Eesti Raudtee” under the concluded cooperation agreement.

EU fund and state budget project funding movement in 2022:

DEFERRED INCOME	BALANCE AT 01.01.2022	RECLASSIFIED (TRANSFERRED)	RECEIVED FUNDS	TRANSFER OF FUNDS TO THE PARTNER	DECREASE IN THE PROPERTY, PLANT AND EQUIPMENT DEPRECIATION CHARGE	BALANCE AT 31.12.2022
Non-current portion	250,142	(20,945)	36,264	(82)	-	265,379
Current portion	19,055	20,945	-	-	(20,640)	19,360
Total	269,197	-	36,264	(82)	(20,640)	284,739

25. FINANCIAL RISK MANAGEMENT

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

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

Financial risk management is ensured by the Finance Department of the dominant company of the *Group* and the Finance Committee of the *Group*.

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

	31.12.2023	31.12.2022
<i>(EUR'000)</i>		
Financial assets at amortised cost		
Trade and other receivables, excluding advances	57,557	34,622
Cash and cash equivalents	39,203	80,388
Financial assets at fair value through revaluation in the income statement		
Long-term financial investments	74	74
Total financial assets	96,834	115,084
Financial liabilities at amortised cost		
Borrowings from credit institutions	86,309	90,556
Trade and other payables, Lease liabilities, excluding advances (including the non-current portion)	35,528	43,700
Total financial liabilities	121,837	134,256

Market risk

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

Interest rate risk

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

All of the *Group's* borrowings are at variable interest rates. For a detailed description of interest rates on borrowings, see Note 22. The *Group* manages the risk of interest rate changes by regularly assessing the borrowing rates available on the market. If lower interest rates than the existing ones are available, the *Group* evaluates the financial cost-effectiveness of loan restructuring.

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

Interest rate sensitivity

The following table shows the sensitivity of the *Group's* profit before tax to reasonably possible changes in interest rates at the end of each reported reporting period, provided that all other variables remain unchanged. *The Group's* equity, except for the result of the reporting year, is not affected.

	2023		2022	
	BASE RATE INCREASE/DECREASE (BASIS POINTS)	IMPACT ON PROFIT BEFORE TAX (EUR '000)	BASE RATE INCREASE/DECREASE (BASIS POINTS)	IMPACT ON PROFIT BEFORE TAX (EUR '000)
EURIBOR	(+100)	(40)	(+100)	(17)
	(-100)	40	(-100)	17

Currency risk

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

The *Group's* financial instruments by currency as at 31 December 2023 are presented in the table below:

	EUR	USD	CHF AND OTHER CURRENCIES	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000
Trade and other receivables, excluding advances	56,234	-	1,323	57,557
Cash and cash equivalents	38,031	47	1,125	39,203
Total financial assets	94,265	47	2,448	96,760
Borrowings from credit institutions	86,309	-	-	86,309
Trade and other payables, excluding advances	34,479	6	1,043	35,528
Total financial liabilities	120,788	6	1,043	121,837

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

	EUR	USD	CHF AND OTHER CURRENCIES	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000
Trade and other receivables, excluding advances	34,076	61	485	34,622
Cash and cash equivalents	78,426	65	1,897	80,388
Total financial assets	112,502	126	2,382	115,010
Borrowings from credit institutions	90,556	-	-	90,556
Trade and other payables, excluding advances	40,827	143	2,730	43,700
Total financial liabilities	131,383	143	2,730	134,256

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

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

Currency sensitivity

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

Credit risk

Credit risk is the risk that a counterparty could default on its obligations to the *Group*, causing it significant financial losses. The *Group* is exposed to credit risk arising directly from its economic activities, principally trade receivables, and to credit risk related to the *Group's* financing activities, mainly cash deposits with banks.

Trade receivables

Each company of the *Group* manages the credit risk of trade receivables in accordance with the *Group's* policies. Before concluding contracts, the solvency of customers is assessed. Several companies of the *Group* will secure against credit risk by receiving prepayments from their customers.

The *Group* continuously monitors the balances of receivables to minimise the possibility of uncollectible debts. Possible impairment of trade receivables is constantly analysed. The *Group* has not received any collateral as security for trade receivables.

The *Group* assesses the concentration of credit risk of its trade receivables as average. As at 31 December 2023, the *Group* had three (3) customers (2022: three (3) customers), each of which owed the *Group* more than EUR 700 thousand and accounted for about 86.7% (2022: 83.5%) of the total receivables.

The *Group* does not have an internal credit rating system for assessing the debts of buyers and customers.

During 2023, there have been no significant changes in the expected credit losses for trade receivables. Trade receivables are written off only when they are not expected to be recovered. Indications that the recovery is unlikely include, inter alia, the debtor's inability to agree on a repayment schedule accompanied by the debtor's insolvency, bankruptcy, or liquidation.

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

	31.12.2023	31.12.2022
Cash and cash equivalents	39,203	80,388
Trade and other receivables (gross amount), excluding advances and prepayments	58,714	35,776
Total	97,917	116,164

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

	Not overdue	Overdue over 30 days	Overdue over 90 days	Overdue over 120 days	Total
Expected credit loss rate	0.1%	2.0%	11.0%	79.2%	-
Trade and other receivables, gross	56,707	499	154	1,354	58,714
Expected credit loss	(58)	(10)	(17)	(1 072)	(1,157)

The expected credit loss on 31 December 2022 are determined by applying the following expected credit loss rates:

	Not overdue	Overdue over 30 days	Overdue over 90 days	Overdue over 120 days	Total
Expected credit loss rate	0.1%	2.0%	11.0%	91,0%	-
Trade and other receivables, gross	34,375	160	29	1,212	35,776
Expected credit loss	(45)	(3)	(3)	(1,103)	(1,154)

Cash deposits

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

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

CREDIT RATING	31.12.2023	31.12.2022
Aa3	80	617
A3	35,832	77,874
Baa2	2,380	642
No rating	911	1,255
Total	39,203	80,388

Liquidity risk

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

The *Group's* Finance Committee and the Finance Department of the *Group's* parent company manage liquidity risk by maintaining adequate cash reserves and ensuring sufficient funding through the granted loans, credit lines, financial leases, etc., as well as by constantly monitoring the projected and actual cash flows and harmonising the term structure of financial assets and liabilities.

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

As of 31 December 2023, the *Group's* current assets exceed its current liabilities by EUR 8,075 thousand, as a result of which the total liquidity - current assets against current liabilities was 1.1. Current liabilities include deferred revenue of EUR 18,731 thousand related to the European Union project and state budget fund investments in railway public infrastructure, so there is a low-risk possibility that financial resources will be required to cover these liabilities. The total liquidity ratio, excluding future revenues related to investments of EU projects and state budget funds in the public railway infrastructure, is 1.3.

The concluded loan agreements with banks provide for financial indicators that *Latvijas dzelzceļš* must comply with during the term of the agreement. As at 31 December 2022, at 31 December 2023 and beginning of 2024, none of the non-current borrowings was in default.

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

	(EUR'000)				
31 DECEMBER 2023	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Borrowings from credit institutions	8,564	28,065	56,345	2,055	95,029
Other liabilities (including other borrowings, trade and other payables)	18,561	13,736	1,859	1,157	35,313
Total	27,125	41,801	58,204	3,212	130,342

	(EUR'000)				
31 DECEMBER 2023	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Borrowings from credit institutions	6,896	20,204	67,969	2,027	97,096
Other liabilities (including other borrowings, trade and other payables)	27,252	11,565	3,555	1,286	43,658
Total	34,148	31,769	71,524	3,313	140,754

26. FAIR VALUE CONSIDERATIONS

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

This hierarchy requires the use of observable market data where available. When carrying out revaluation, the *Group* shall take into account appropriate observable market prices, if possible.

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

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

Based on the fair value hierarchy, all valuation techniques are categorised into Level 1, Level 2 and Level 3.

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

The classification of a financial instrument in the fair value hierarchy takes place in two stages:

1. Classify data at each level to determine the fair value hierarchy;
2. Classify the financial instrument itself based on the lowest level if the material part of its value is made up of lower-level data.

Quoted market prices — Level 1

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

Valuation technique using market data – Level 2

In the models used in the valuation technique at Level 2, all relevant data, directly or indirectly, is observable, on the assets or liability sides. The model uses market data other than the quoted prices included in Level 1, but which are observable either directly (i.e. price) or indirectly (i.e., derived from the price). The Level 2 fair value hierarchy corresponds to the *Group's* cash and cash equivalents.

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

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

Financial assets and liabilities included in Level 3:

	<i>(EUR'000)</i>	
ASSETS:	31.12.2023	31.12.2022
Trade receivables, net	57,557	34,622
Long-term financial investments	74	74
Total	57,631	34,696

	<i>(EUR'000)</i>	
LIABILITIES:	31.12.2023	31.12.2022
Borrowings from credit institutions	86,309	90,556
Trade payables	35,528	43,700
Total	121,837	134,256

Assets and liabilities for which fair value is disclosed

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

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

Assets measured at fair value

The category of property, plant and equipment "Wagons for cargo transportation" is measured at the revalued amount, based on the valuation performed in 2022, taking into account the accumulated depreciation. Based on the provisions of IAS 16 *Property, plant and equipment*, to ensure that the carrying amount at the end of the reporting year does not differ significantly from their fair value at the end of the reporting year, in 2022 SIA "LDZ CARGO" revalued wagons, engaging an independent external appraiser. As a result of the revaluation, it is concluded that the difference between the carrying value of wagons and their fair value is not material and, accordingly, it has not been recorded. Also, in 2023 impairment was recognised for 7 individual assets (wagons) (in 2022: 9 individual assets (wagons)), due to identified indicators that the carrying amount of those assets may be not recoverable.

To determine whether the value of other groups of property, plant and equipment had impaired, SIA "LDZ CARGO" conducted an impairment test of property, plant and equipment in accordance with IAS 36 *Impairment of assets*. After evaluating the results of the revaluation and impairment test, the *Company's Management* concluded that no impairment was identified.

At each reporting date SIA "LDZ CARGO" evaluates the remaining useful life of its property, plant and equipment. Based on the latest assessments carried out by SIA "LDZ CARGO", the current useful life corresponds to the actual use time of the property, plant and equipment of SIA "LDZ CARGO".

27. CAPITAL MANAGEMENT

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

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

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

(EUR'000)

	31.12.2023	31.12.2022
Borrowings from credit institutions and other borrowings	86,309	90,556
Accounts payable (including taxes)	62,793	73,465
Other liabilities	303,334	294,148
Total liabilities	452,436	458,169
Equity	392,229	395,460
Total equity and liabilities	844,665	853,629
Debt to equity ratio	54%	54%
Equity to total liabilities ration	87%	86%

28. CAPITAL EXPENDITURE COMMITMENTS

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

Major contracts concluded but not yet completed:

NAME OF COUNTERPARTY, SUBJECT OF THE CONTRACT	DATE OF CONTRACT	MATURITY OF THE CONTRACT	CONTRACT AMOUNT, EUR'000
"BMGS – FIMA" general partnership: Construction of elevated platforms on the railway line Riga - Jelgava	29.07.2021	06.08.2024	69,167
"BMGS – FIMA" general partnership: Modernization of the Dobeles station centralization system	28.04.2023	28.12.2024	3,693
"BMGS – FIMA" general partnership: Construction of elevated platforms on the railway line Riga – Krustpils	29.07.2021	16.03.2024	10,752
"BMGS – FIMA" general partnership: Construction of elevated platforms on the railway line Riga - Tukums II	29.07.2021	15.08.2024	6,163
"BMGS – FIMA" general partnership: Construction of elevated platforms on the railway line Zemitani - Skulte	30.07.2021	16.03.2024	8,229
Fima Group general partnership: Implementation of unified information and video surveillance systems	12.05.2022	15.08.2024	5,512
AOP BMGS-FIMA-ASTOM: Modernisation of railway infrastructure to increase the speed of train movement: construction	15.09.2022	17.05.2024	57,938

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

29. RESEARCH AND DEVELOPMENT ACTIVITIES

COSTS	(EUR'000)	
	2023	2022
Internal expenditure on research and development work carried out by the companies	4,862	1,352
External expenditure on research and development work commissioned in other institutions, enterprises, organizations	166	15
Total	5,028	1,367

30. CONTINGENT TAX LIABILITIES

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

31. FUTURE LEASE PAYMENTS

In 2023, the *Group's* costs related to the concluded operating lease contracts were EUR 301 thousand; in 2022 – EUR 364 thousand, respectively.

32. RELATED PARTY TRANSACTIONS

The *Group* applies reliefs provided for in IAS 24 and presents only material related-party transactions. The *Group* has transactions with the Ministry of Transport (100% shareholder of *Latvijas dzelzceļš*) and other commercial companies whose shares are owned by the state. The largest transactions are with AS "Pasažieru vilciens" (payments for the minimum access service package, distribution and sale of electricity, fee for diesel fuel, lease of premises, purchase of subscriber tickets) for EUR 31,177 thousand (in 2022: EUR 24,136 thousand) and VAS "Latvenergo" (security services, purchase of electricity) for EUR 41,357 thousand (in 2022: EUR 21,003 thousand). Mutual transactions are related to the operating activity of the respective parties.

(EUR'000)

RELATED PARTY	31.12.2023	31.12.2022
Payables to AS "Pasažieru vilciens"	2,579	2,504
Payables to AS "Latvenergo"	2,909	2,890

33. GOING CONCERN

External factors related to the geopolitical situation, the war in Ukraine, and the imposed international economic sanctions against Russia and Belarus indicate that the situation related to the volumes of cargo transportation will not improve significantly in the future. The *Company* estimates that 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 have been subject to extensive economic and political sanctions. The sanctions had a significant impact on the *Company's* operations, requiring a review of internal sanctions management processes as well as additional resources to be allocated to sanctions inspections, both on business partners and on the freight 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 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. Given the risks associated with the 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 Sanctions policy of Latvijas Dzelzceļš Group, ensuring a uniform approach to sanctions checks throughout the *Group*.

3) In assessing the risks related to significantly expanded lists of sectoral sanctions, 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 Sanctions information system (IS) 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 to upgrade IS Sanctions system, as well as on strengthening the *Company's* sanctions monitoring function through several technical improvements.

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 Latvijas dzelzceļš 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.

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, *Latvijas dzelzceļš Management* believes that the going concern principle is applicable to the preparation of the consolidated financial statements, based on the approval of the strategy and action plan of *Latvijas dzelzceļš*, the implementation of the new business model of *the Group*, and the review of organizational and technological processes, which should result in future cost reduction. The main task of *Latvijas dzelzceļš* is to ensure the management of the State public-use railway infrastructure and safe, high-quality, and efficient railway and logistics services in the interests of the State, the public, and the Latvian economy, therefore we believe that the fulfilment of the conditions laid down in Section 9, Paragraph 4 of the Railway Law will not be delayed. Consequently, the consolidated 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.

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

34. EVENTS AFTER THE END OF THE REPORTING YEAR

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

Riga, see the date in the timestamp.

Chairman of the Board

R. Pļavnieks

Member of the Board

V. Balode-Andrūsa

The annual report was prepared by VAS "Latvijas dzelzceļš" Finance Department,
Deputy Finance Director for Economic Matters

T. Labzova-Ceicāne

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

VAS “LATVIJAS DZELZCEĻŠ” STATEMENT ON CORPORATE GOVERNANCE IN LATVIJAS DZELZCEĻŠ GROUP IN 2023

The Statement on Corporate Governance of VAS “Latvijas dzelzceļš” (hereinafter “*Latvijas dzelzceļš*” or “*the Company*”) in “Latvijas dzelzceļš” Group (hereinafter “*the Group*”) has been prepared in accordance with the provisions of Section 58.¹ of the “Law on governance of capital shares of public persons and capital companies” and in compliance with the Cabinet of Ministers Regulation No. 175 “Regulation on corporate governance recommendations applicable in the capital company of a public person and in the public privately-held capital company” of 15 March 2022, which stipulates that a capital company of a public person should apply Latvian Code of Corporate Governance Code “Recommendations on good corporate governance for companies in Latvia” (“the Code”). The Code applies on the basis of the “comply or explain” principle, i.e., there is an obligation to take into account all the principles contained in the Code and to provide information on compliance with them or to provide an appropriate explanation for any deviation from a principle. The rules of application of the Code state that a company fulfils the requirements of the Code even if it does not comply with certain principles, provided that the deviation from a particular principle is effectively communicated and explained.

The Statement contains information and facts that provide an overview of the application of the Code and its principles in Latvijas dzelzceļš Group in 2023. The application of the criteria contained in the Code has been marked in the Statement as follows:

- Fully complied with
- Partially complied with
- Not applicable
- Not complied with

SUMMARY

Management of *Latvijas dzelzceļš* and its dependent companies follow the *Recommendations on good corporate governance for companies in Latvia* of the Latvian Code of Corporate Governance, which sets criteria for each of the 17 principles to help assess whether the principle has been complied with. In 2023, out of 67 criteria, the *Group* fully complied with 59 criteria, and 8 criteria were partially met.

Latvijas dzelzceļš ensures the improvement of existing corporate governance practices. Under the provisions of the corporate governance code of Latvijas Dzelzceļš Group¹, after approval of the corporate governance report for the reporting period, the Council of *Latvijas dzelzceļš* approves the Group's corporate governance action plan for the current year developed by the Board and evaluates its implementation.

CORPORATE STRATEGY

Principle 1. The company has developed an up-to-date strategy that defines the company's goals and progress towards its long-term value growth.

CRITERIA	FACTS
1.1. The company has developed an up-to-date strategy that defines the company's goals and progress towards its long-term value growth	<p><input type="radio"/> Latvijas dzelzceļš has established a Medium-term operational strategy for 2021-2025, which sets out the objectives of Latvijas dzelzceļš and the Group and a focus on its long-term value growth.</p> <p>As a result of the occurrence of geopolitical risk, it is necessary to revise the strategy. The Medium-term operational strategy will be</p>

¹ The Code of Corporate Governance of Latvijas dzelzceļš Group approved by VAS “Latvijas dzelzceļš” Council Decision No. PA1.2./13-7 of 20 October 2021.

		reviewed following the approval of the Indicative Plan for the Development of Railway Infrastructure and the signing of the Multi-Annual Agreement.
1.2.	The council is engaged in the strategy development process and approves the strategy at a council meeting	○ The Medium-term operational strategy of Latvijas dzelzceļš for 2021-2025 was approved by Council Decision No. PA 1.2/8-6 of 14.07.2021.
1.3.	The council oversees the implementation of the strategy	○ The Council of Latvijas dzelzceļš oversees the implementation of the strategy ² . Every six months, a report on the implementation of the action plan for the implementation of the strategy, including the fulfilment of the indicators set by the shareholder ³ , is submitted to the holder of capital shares at the meeting of the Council. The councils of dependent companies (in companies where council has been established) quarterly review the action plans execution for the implementation of strategic planning documents. Subsidiaries quarterly provide the report, reviewed by the board and council (in companies where the council has been established), on the execution of action plans for the implementation of strategic planning documents, including the fulfilment of indicators determined by the holders of capital shares ⁴ , to Latvijas dzelzceļš (Shareholder).
1.4.	The company's board implements the strategy and reports regularly to the council on the progress made in the implementation of the strategy	○ Latvijas dzelzceļš's Management regularly reports to the Council on the strategy implementation progress. The boards of dependent companies shall, once a quarter, submit to the Council (if such has been established in the company) or VAS "Latvijas dzelzceļš" as the only participant, a report on the execution of action plans for the implementation of strategic planning documents.

² The Rules of Procedure of the Council of the State Joint Stock Company VAS "Latvijas dzelzceļš" have been approved by the Decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./13-10 of 20 October 2021

³ Internal Regulations of the Ministry of Transport 27.09.2021. No. 01-02/31 "Procedure for the Management of State Capital Shares".

⁴ The policy for managing the limited liability companies of "Latvijas dzelzceļš" Group, approved by the decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./7-14 on June 18, 2021.

INTERNAL CULTURE AND ETHICAL BEHAVIOUR

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

CRITERIA	FACTS
2.1 The council defines the company's core values	○ The corporate values of the Group, as well as the principles of professional conduct and ethics, which ensure that they are directed against corruption, conflict of interest, illegal use of inside information and any other illegal and unethical actions, are set out in the Code of Ethics of Latvijas Dzelzceļš Group.
2.2. The board prepares and the council approves a code of internal culture and ethical conduct	○ The Code of Ethics of Latvijas Dzelzceļš Group was approved by council decision No. PA 1.2/13-6 of 20.10.2021, published on the website.
2.3. The board ensures compliance with the internal culture and ethical code of conduct in the daily activities of the company and reacts if a violation of the code of ethical behaviour is found	○ The Board has approved the by-laws of the Ethics Commission and appointed the head of the Ethics Commission. The Ethics Commission has been established by order of its head. Visual and audiovisual materials related to ethical issues have been developed and new employees are introduced to the principles of the Code of Ethics within the framework of the New Employees' Day training program and the manager training program "LDz Manager Academy". The newly recruited employees of Latvijas dzelzceļš are introduced to the Code of Ethics by signature. A reference to the Code of Ethics is also included in the Rules of Procedure. In 2023, active work was performed to research and analyse the existing and desired company values of all levels of employees, including management team, and an activity plan of the Internal Culture Change Programme was developed, an integral part of which is updating of the basic ethical principles and training of employees about them. The implementation of the internal culture change programme has started in the 4th quarter of 2023.

INTERNAL CONTROL SYSTEM, RISK MANAGEMENT AND INTERNAL AUDIT

Principle 3. The company has established an internal control system, the effectiveness of which is monitored by the council.

CRITERIA	FACTS
<p>3.1. The company has established a documented internal control system, the establishment of which is the responsibility of the board</p>	<p>○ The Group's internal control system consists of a set of policies and related regulations approved by the Council or the Board of the parent company⁵. The policies establish unified management guidelines for a specific area of activity, the general principles of decision-making and the division of responsibilities between the parent company and its subsidiaries. For the implementation of the policies, policy documents are developed, in addition, the fundamentals of the polices are included in bylaws, work organisation documents, and job descriptions for employees. In accordance with the Group's policies, an internal control and risk management system is established and continuously improved in the subsidiaries, which is managed by the board of the subsidiary. Latvijas dzelzceļš, as the parent company, coordinates the implementation of internal control in its subsidiaries. Council oversees the functioning, adequacy and effectiveness of the internal control and risk management systems of Latvijas dzelzceļš ⁶.</p>
<p>3.2. At least once a year, Internal audit carries out an assessment of the effectiveness of the internal control system against predefined criteria and reports the results of the assessment to the council</p>	<p>○ The internal audit assesses the effectiveness of the internal control environment and risk management systems, including the likelihood of fraud, errors or risks of unproductive and uneconomic activity and the appropriateness of internal controls to achieve the objectives. As a result, recommendations are made for the management processes and internal control system improvement in the Company and the Group's capital companies. Also, the implementation of the recommendations is supervised. Internal audit reports are submitted to the Board, the Council and the representative of the holders of State capital shares.</p> <p>In 2023, the internal audit carried out 10 audits in accordance with the approved internal audit work plan for 2023. One of the most important areas, in two audits the management and effectiveness of the investment projects' execution was assessed. Other audits carried out in 2023 were fraud audit, corruption and conflict of interest risk audit, personal data protection audit, environmental and energy management programme implementation risk audit, risk of insufficient analysis of transactions, credit risk</p>

⁵ The policy for managing the limited liability companies of "Latvijas dzelzceļš" Group, approved by the decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./7-14 on June 18, 2021.

⁶ The Rules of Procedure of the Council of the State Joint Stock Company "Latvijas dzelzceļš" have been approved by the Decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./13-10 of 20 October 2021

		audit, risk of use of information systems developed in Russia or Belarus, fuel trading risk audit, audit of business continuity plan for state threat event and PRIME comparative assessment data analysis audit.
3.3.	The council evaluates the submitted assessment of the effectiveness of the internal control system at least once a year	○ The Head of the Internal Audit regularly reports to the Audit Committee of the Council of Latvijas dzelzceļš on the progress of the internal audit plan execution and once a year provides a report to the Board, Council and shareholders' meeting of Latvijas dzelzceļš on the activities of the internal audit department in the previous year and the implementation of the internal audit plan, including also a general opinion on the effectiveness of the Group's internal control and risk management system. ⁷

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

	CRITERIA		FACTS
4.1	The board develops and council approves the company's risk management policy	○	The Council of Latvijas dzelzceļš has approved the Group's risk management policy approved by the Board of the Group's parent company ⁸ .
4.2	Based on the assessment of the identified risks, the board takes risk management measures	○	Risk management measures are implemented by the boards and risk owners of the Group companies, depending on the risk assessment and measure. The Group's risk management committee, consisting of the Board of Latvijas dzelzceļš, the Head of the Internal Audit Division and the Head of Risk and Risk Management Processes, reviews and discusses the significant risks of the companies of the Group and their mitigation and control measures, makes recommendations for improving the management of significant risks.
4.3	At least once a year, the council reviews the board's reports on the risk management activities and the implementation of the risk management policy	○	Once a year, the Council of Latvijas dzelzceļš reviews the annual report provided by the Board on the progress of the risk management process and the implementation of the risk management plan in the Company and the Group as a whole. Once a quarter, the Council of Latvijas dzelzceļš examines the Board's report on the significant risks of the companies of the Group, their control mechanisms, and the implementation of the risk management plan.

⁷ Internal audit policy of Latvijas Dzelzceļš Group, approved by decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2/19-9 of 20 October 2022

⁸ The risk management policy of Latvijas Dzelzceļš Group was approved by the decision of the Council of VAS "Latvijas dzelzceļš" dated October 15, 2020 No. PA 1.2./22-6

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

CRITERIA	FACTS
5.1 The company has an internal auditor who is functionally independent from the board and reports to the council	<p data-bbox="762 315 1414 707">○ The internal audit function in the Group is carried out by the Internal Audit Division of Latvijas dzelzceļš, which reports directly to the Council of Latvijas dzelzceļš. However, the Board is empowered to approve the by-laws of the Internal Audit Division and to solve issues related to employment legal relations, with the prior consent of the Council. For the approval of the medium-term and annual audit plan, the Board requires the prior consent of the Council and the Shareholders' Meeting, therefore, in fact, the criterion is partially met.</p> <p data-bbox="831 730 1414 1093">The Head of Internal Audit shall regularly report to the Audit Committee and the Council on the progress of the implementation of the Internal Audit Plan and once a year provide a report to the Board, Council and shareholders' meeting of Latvijas dzelzceļš on the activities of the internal audit division in the previous year and the implementation of the internal audit plan, including also a general opinion on the effectiveness of the Group's internal control and risk management system.</p> <p data-bbox="831 1115 1414 1211">The Internal Audit Division of Latvijas dzelzceļš has the right to carry out audits and inspections in dependent limited liability companies.</p>
5.2 The internal auditor is approved for the position by the council	<p data-bbox="762 1240 1414 1335">○ The appointment of the candidate for the head of the Internal Audit Division to the position is approved by decision of the Council.</p> <p data-bbox="831 1357 1414 1585">Compliance is partial, because the rules of procedure of the Council stipulate that the Board needs the prior consent of the Council to establish or terminate the employment legal relations with the Head of the Internal Audit Division, which is not applicable to other internal auditors.</p>
5.3 The internal auditor develops a risk-based internal audit plan, which is approved by the council	<p data-bbox="762 1615 1414 1742">○ The head of the Internal Audit Division shall, based on the risk assessment performed, develops a medium-term internal audit strategic plan and an annual internal audit plan⁹.</p> <p data-bbox="831 1765 1414 1892">The medium-term internal audit strategic plan and the annual audit plan are approved by the Board, having received prior consent from the shareholders' meeting of VAS "Latvijas</p>

⁹ Internal audit policy of Latvijas Dzelzceļš Group, approved by decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2/19-9 of 20 October 2022

		dzelzceļš" ¹⁰ and councils. It is within the competence of the Council, if necessary, to order other unscheduled audits or inspections ¹¹ .
5.4	The internal auditor informs the board and the council on the implementation of the internal audit plan, the results of the audit and the recommended actions to remedy deficiencies, if any have been identified	<p>○ Once a year the Internal Audit Division submits to the Board and the Council for review and to the holder of State capital shares a report on the results of the implementation of the audit plan of the previous calendar year, as well as on the statuses of implementation of the internal audit recommendations¹².</p> <p>Once a year, the Board submits a report on the implementation of the internal audit plan in the previous year¹³ to the shareholders' meeting for consideration.</p>

EXTERNAL AUDITOR

Principle 6. The company has an independent external auditor.

CRITERIA	FACTS
6.1. The board and the audit committee, if established, determine the criteria for the selection of the external auditor	<p>○ The Council and the Audit Committee of Latvijas dzelzceļš, as well as the councils of the Group's dependent companies, have no responsibility to determine the selection criteria for the external auditor.</p> <p>The shareholder meeting of VAS "Latvijas dzelzceļš" decides on the election of an auditor and determination of remuneration.¹⁴</p> <p>After decision on the results of the procurement in relation to dependent limited liability companies, the decision on the election of an auditor is taken by the Shareholder's Meeting¹⁵. The auditor of AS LatRailNet is elected based on Section 268(1)(d)(3) and (9) of the Commercial Law, Paragraph 9, Sub-paragraphs 3 and 8 of the Articles of Association of AS LatRailNet. The Shareholder Meeting decides on the election of the auditor and the determination of remuneration for the auditor.</p>

¹⁰ The Articles of Association of the VAS "Latvijas dzelzceļš", approved by decision No. A1.1./1-1 of the extraordinary shareholders' meeting of VAS "Latvijas dzelzceļš" of 13 January 2023.

¹¹ The Rules of Procedure of the Council of the VAS "Latvijas dzelzceļš" have been approved by the Decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./13-10 of 20 October 2021

¹² The By-laws of the Internal Audit Division of the VAS "Latvijas dzelzceļš" have been approved by the Decision of the Board of VAS "Latvijas dzelzceļš" No. VL-42/166 of 24 October 2019

¹³ Internal Regulations of the Ministry of Transport 27.09.2021. No. 01-02/31 "Procedures for the Management of State Capital Shares"

¹⁴ Law on Management of Capital Shares of a Public Person and Capital Companies

¹⁵ The policy of management of limited liability companies of "Latvijas dzelzceļš" Group, approved by the decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./7-14 of June 18, 2021.

6.2. The company has an independent external auditor with appropriate qualifications	○ The auditor of VAS Latvijas dzelzceļš's annual accounts for 2021-2023 was elected by decision of the Shareholders' Meeting No.A1.1/3-11 of 29.07.2021.
	The audit of the annual accounts of Latvijas dzelzceļš Group companies for 2023 and the consolidated annual statement of VAS "Latvijas dzelzceļš" is carried out by the company of certified auditors SIA "PricewaterhouseCoopers", license No.5
6.3. The term of office of one external auditor shall not exceed 5 years	○ The period of service of one external auditor has exceeded 5 years. Compliance with the criterion will be fully ensured after the fulfilment of the contract with SIA "PricewaterhouseCoopers", i.e., with the next procurement for 2024.

ELECTION OF THE MEMBERS OF THE COUNCIL

Principle 7. The company ensures transparent procedures for the election and removal of council members.

CRITERIA	FACTS
7.1. The company has established a procedure for the selection and removal of council member	○ The procedures for the selection and withdrawal of council members of Latvijas dzelzceļš as a capital company of a public person and its dependent companies are determined by external legal acts ¹⁶ and acts issued on their basis ¹⁷ , and they are followed.
7.2. The company provides timely and sufficient information to its shareholders about the members of the council who are standing for election or re-election.	○ Both Latvijas dzelzceļš and the companies of the Group provide timely and sufficient information to the holder of the capital shares regarding the members of the Council who are being promoted for election or re-election.
7.3. The size of the council is appropriate to the specific nature of the company	○ In 2023, by the decision of the minutes of the shareholders' meeting, Andris Maldups and Juris Kaļņuks were removed from the positions of council members ¹⁸ , while in 2023, the former Chairman of the Council, Jānis Lange, resigned, thus the Council is composed of two members until further changes. Up-to-date information on the council members is available on the website of Latvijas dzelzceļš.
7.4. A member of the council is elected for a term of office of not more than 5 years	○ A member of the Council shall be elected for a term not exceeding 5 years ¹⁹ .

¹⁶ Law on Management of Capital Shares of a Public Person and Capital Companies

¹⁷ Cabinet Regulation No. 20, 07.01.2020. Procedures for nominating members of the board and council in capital companies in which capital shares are owned by the State or a derived public person

¹⁸ Decision No. A1.1./1-2.1 of the minutes of the Shareholders' Meeting of 13 January 2023

¹⁹ Law on Management of Capital Shares of a Public Person and Capital Companies

Principle 8. The members of the Council together have appropriate experience and competence.

CRITERIA		FACTS
8.1 The council collectively has the skills, experience and knowledge, including in the relevant sector, to be able to fully perform its duties	○	The Council is nominated in accordance with the procedures laid down in external legislation, thus the members of the Council are evaluated according to the professional criteria. Information on the education and experience of the members of the Council of Latvijas dzelzceļš and dependent companies is available on the website of Latvijas dzelzceļš.
8.2 The composition of the board is based on the principles of diversity	○	The Council shall be nominated in accordance with the procedures set up by external legislation. The rules for the application of the principles of diversity have not been developed by the Group.
8.3 Both genders are represented on the council	○	In 2023, out of four councils of the Group's companies, in one - SIA "LDZ Ritošā sastāva serviss", both genders are represented.
8.4 The board develops an induction training programme and provides induction training for the new members	○	In 2023, Latvijas dzelzceļš developed and provided an induction training programme for new members of the Council, including the companies of the Group.

Principle 9. The company's council includes independent members

CRITERIA		FACTS
9.1 The company evaluates and shareholders determine the proportion of independent Board members	○	The proportion of independent Board members is determined by external legislation ²⁰ .
9.2 At least half of the council members are independent	○	In 2023, at least half of the Group companies' council members were independent. Information on the status of an independent Council member is indicated on the website of each company under the section "Council".
9.3 Independent candidates for board members shall provide proof of their compliance with the independence criteria	○	During the nomination process, candidates for independent board members have submitted proof of their compliance with the independence criteria.
9.4 Before the council elections, the company assesses the independence of the council members according to the available information	○	The independence of the members of the Council is assessed by the nomination committee according to the available information.

²⁰ Law on Management of Capital Shares of a Public Person and Capital Companies

PRINCIPLES FOR DETERMINING THE REMUNERATION OF COUNCIL AND BOARD MEMBERS

Principle 10. The company has established a remuneration policy

CRITERIA	FACTS
10.1. The company has established a remuneration policy, developed by the board, reviewed by the council and approved by the general meeting of shareholders	○ The principles for determining remuneration for members of the Board and Council are laid down in external legislation ²¹ and the internal regulations ²² of the Ministry of Transport. By decision No. PA1.2./5-12 of the Council of 15.04.2021, the Council has approved the guidelines for remuneration and motivation of the board members of VAS "Latvijas dzelzceļš". Latvijas dzelzceļš, as the Dominant Company of the Group, establishes uniform procedures (guidelines) ²³ For determining the remuneration of members of the council and board of dependent companies. In accordance with the Articles of Association of Latvijas dzelzceļš, the Board shall coordinate with the shareholders' meeting the most important conditions for determining the remuneration of the Company's employees developed by the Board, on which the remuneration system for employees of Latvijas dzelzceļš is based. ²⁴ Latvijas dzelzceļš Group's personnel management and remuneration policy (new version) is approved by the Council ²⁵ of Latvijas dzelzceļš.
10.2. The council sets financial and non-financial objectives for the board each year, their impact on variable remuneration and shall control their implementation	○ Once a year, the Council of Latvijas dzelzceļš sets the financial and non-financial objectives to be achieved by the Board, the individual goals (KPIs) of the members of the Board for the next period and supervises ²⁶ their implementation. The Board of the dependent company requires the prior consent of the council (if any has been established) or, if the council has not been established, the prior consent of the parent company as the sole shareholder for the approval of the projected annual financial indicators and non-financial goals, individually determined for

²¹ Law on Management of Capital Shares of a Public Person and Capital Companies

²² Internal Regulations of the Ministry of Transport 27.09.2021. No. 01-02/31 "Procedures for the Management of State Capital Shares"

²³ The guidelines for remuneration and motivation of the members of the Council and the Board of Dependent Companies of Latvijas Dzelzceļš Group have been approved by the Decision of the Board No. VL-1.6/219-2022 of 13 July 2022

²⁴ Regulations regarding the most important conditions for determining compensation of employees, approved by the Decision of the Board No. VL-1.6/334-2022 of 17 October 2022, approved by the Council Decision No. PA1.2/19-8 of 20 October 2022, coordinated with the decision of the shareholders' meeting No. A1.1/7-1 of 24 November 2022.

²⁵ The personnel management and remuneration policy of Latvijas Dzelzceļš Group was approved by the Council Decision No. PA1.2/19-7 of 20 October 2022

²⁶ The Rules of Procedure of the Council of the State Joint Stock Company "Latvijas dzelzceļš" have been approved by the Decision of the Council of VAS "Latvijas dzelzceļš" No. PA1.2./13-10 of 20 October 2021

		the members of the Board for the approval of the achievable performance indicators individually determined for the members of the board ²⁷ .
10.3.	The members of the council are not paid a variable remuneration or any compensation in the event of removal or resignation.	○ The members of the Council of Latvijas dzelzceļš and the members of the Council of the Group's dependent companies do not have a variable part of their remuneration, as well as no compensation is paid in the event of removal from office or resignation.
10.4.	Once a year, the board reports on the remuneration granted to each current and former member of the board and council.	○ The report of the Board on the remuneration granted in 2023 to each current and former member of the Board and the Council will be published on the website of Latvijas dzelzceļš.

ORGANISATION OF THE COUNCIL'S WORK AND DECISION-MAKING

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

CRITERIA		FACTS
11.1	The council organises its work in accordance with its bylaws and work schedule	○ Rules of Procedure ²⁸ approved for the Council of Latvijas dzelzceļš. The Council shall approve the calendar of regular meetings of the Council for the current calendar year. In 2023, 18 Council meetings took place, where 170 decisions were reviewed and taken. The councils of the dependent companies of the group draw up and approve the rules of procedure of the council and submit them to the sole shareholder ²⁹ for information. The rules of procedure of the boards of dependent companies do not indicate the development of an annual work plan.
11.2	The council holds at least one separate meeting per year to discuss the company's strategy and its implementation	○ The Council of Latvijas dzelzceļš monitors the implementation of the strategy ³⁰ . Once every six months, a report on the implementation of the action plan for the implementation of the strategy is submitted to the holder of capital shares reviewed and approved at the council meeting ³¹ . In 2023, a separate discussion/seminar between

²⁷ The policy of management of limited liability companies of "Latvijas dzelzceļš" Group, approved by the decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./7-14 of June 18, 2021.

²⁸ The Rules of Procedure of the Council of the State Joint Stock Company "Latvijas dzelzceļš" have been approved by the Decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./13-10 of 20 October 2021

²⁹ The policy of management of limited liability companies of "Latvijas dzelzceļš" Group, approved by the decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./7-14 of June 18, 2021.

³⁰ The Rules of Procedure of the Council of the State Joint Stock Company "Latvijas dzelzceļš" have been approved by the Decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./13-10 of 20 October 2021

³¹ Internal Regulations of the Ministry of Transport 27.09.2021. No. 01-02/31 "Procedures for the Management of State Capital Shares"

		<p>the Council, the Board and senior managers on the framework of a new strategy took place.</p> <p>The councils of dependent companies (in companies where such have been established) once a quarter examine the implementation of action plans for the implementation of strategic planning documents³².</p>
11.3	The company's budget includes the funding needed for the activities of the council	○ The financing necessary to ensure the operation of the Council is provided for in the budget of the respective company of the Group.
11.4	The council conducts an annual self-evaluation of its work, the results of which shall be examined at a meeting of the council	○ The Council of Latvijas dzelzceļš performs an annual self-assessment. Information on the council's self-assessment and the main conclusions on the results of the council's self-assessment are submitted for consideration at the shareholders' meeting. ³³ <p>Dependent companies shall, simultaneously with the annual report, submit to the Shareholder a report reviewed by the Council on the assessment of the performance of the council members (including self-assessment)³⁴.</p>
11.5	The council has evaluated the need for committees (if a committee has been established, see principle # 12. ¹)	○ The Council of Latvijas dzelzceļš has assessed the need for committees and established an Audit Committee ³⁵ . <p>For dependent companies, council committees are not required under law, nor are they provided for in the board's rules of procedure.</p>

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

CRITERIA	FACTS
12.1 The council has timely and sufficient access to information prepared by the board for decision-making	○ Information for taking of decisions shall be submitted to the Council of Latvijas dzelzceļš a week before the day of the meeting or within a shorter time period in accordance with the decision of the Chairperson of the Council ³⁶ . <p>The rules of procedure of the councils of dependent companies set out the deadlines for the submission of information necessary for decision-making.</p>

³² The policy of management of limited liability companies of "Latvijas dzelzceļš" Group, approved by the decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./7-14 of June 18, 2021.

³³ Internal Regulations of the Ministry of Transport 27.09.2021. No. 01-02/31 "Procedures for the Management of State Capital Shares"

³⁴ The policy of management of limited liability companies of "Latvijas dzelzceļš" Group, approved by the decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./7-14 of June 18, 2021.

³⁵ Council Decision No. PA 1.2./4-2 of 06 March 2020

³⁶ The Rules of Procedure of the Council of the State Joint Stock Company "Latvijas dzelzceļš" have been approved by the Decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./13-10 of 20 October 2021

12.2 The council determines the procedures for the circulation of information, including the right of the council to request information from the board necessary for the council to make decisions	<p>○ The rules of procedure of the Council of Latvijas dzelzceļš determine the procedures for the circulation of information and the right of the Council to request information from the Board, which is necessary for the Council to take decisions.</p> <p>The rules of procedure of the councils of dependent companies determine the procedures for the circulation of information and the right of the council to request information from the board, which is necessary for the council to take decisions.</p>
12.3 Council members analyse information and prepare proposals for decisions by the council	<p>○ The rules of procedure of the Council of Latvijas dzelzceļš stipulate that when taking decisions, a member of the Council shall act in the best interests of the public, in good faith, with due diligence and diligence. The minutes of the Council meeting, inter alia, indicate the course and content of the discussion of agenda items; at the request of a member of the Council, his or her dissenting opinion; the questions raised for consideration, if any.</p> <p>At meetings of councils of dependent companies, the course of the council meeting specified in the rules of procedure of the council shall be observed, upon request of a council member the different opinion of the council members shall be indicated in the minutes.</p>
12.4 When making decisions, the Council considers risks, short- and long-term impacts on corporate value, sustainability and responsible development	<p>○ The Board of Latvijas dzelzceļš submits draft decisions to the Council with an initial assessment³⁷ of the potential risks.</p> <p>In taking decisions, the Council of Latvijas dzelzceļš promotes the achievement of the objectives included in the Medium-term operational strategy, evaluates risks, short-term and long-term impact on the value, sustainability and responsible development of the capital company³⁸</p>

Principle 12.1 The committee prepares proposals for decision by the council.

CRITERIA	FACTS
12.11 <i>The council determines the tasks of the committee and the</i>	○ <i>The Council of Latvijas dzelzceļš has approved the by-laws of the Audit Committee, which determine the tasks of the Committee and the procedures for organising its activities³⁹. The by-</i>

³⁷ The Rules of Procedure of the Board of VAS "Latvijas dzelzceļš" were approved by the Decision of the Board of VAS "Latvijas dzelzceļš" No.VL-41/164 of 17 October 2019

³⁸ The Rules of Procedure of the Council of the State Joint Stock Company "Latvijas dzelzceļš" have been approved by the Decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./13-10 of 20 October 2021

³⁹ The By-laws of the Audit Committee of the Council of the State Joint Stock Company "Latvijas dzelzceļš" have been approved by the Council Decision No. PA 1.2./22-10 of 15 October 2020

	<i>procedures for the organisation of its activities</i>		<i>laws of the Audit Committee are available on the website.</i>
12.12	<i>The council establishes a committee of at least 3 council members with appropriate experience and expertise in the defined area of the committee (remuneration, nomination, audit or other)</i>	○	<p><i>The Council has established an Audit Committee consisting of 3 council members: The chairman of the audit committee is Reinis Cepelis, the members of the committee - Andris Liepiņš and Andris Maldups⁴⁰.</i></p> <p><i>In 2023, by a decision of the minutes of the shareholders' meeting, Andris Maldups was removed from the position of a member of the Council⁴¹, so that the Audit Committee is composed of two members until further changes.</i></p>
12.13	<i>The committee analyses information and prepares proposals for decision-making in the council, as well as informs the council about the work of the committee</i>	○	<p><i>The Audit Committee provides support to the Council in supervising the company's annual report preparation process, performing internal control and risk management system performance supervision tasks and operates in accordance with the requirements of the legislation, observing the principles of good corporate governance. The Audit Committee shall, not less than once a year, provide a written report to the Council regarding the performance of its activities and tasks. The Audit Committee is obliged to report to the council on the identified deficiencies: preparation and/or verification of financial statements and consolidated financial statements; in the efficiency of internal control and risk management and internal audit activities and immediately knowing about the non-compliance of a sworn auditor with the Law on Audit Services.</i></p> <p><i>In 2023, 10 meetings of the Audit Committee took place, 47 issued were examined.</i></p>

PREVENTION OF CONFLICT OF INTEREST

Principle 13. The members of the board and the council are fully aware of the conflict of interest indicators and are informed of the necessary action in the event of a conflict of interest.

CRITERIA		FACTS
13.1. The council defines the indications of a conflict of interest and establishes procedures for the prevention and management of conflicts of interest	○	The members of the board and council of the companies of the Group are public officials, therefore conflict of interest situations and issues of combining positions shall be resolved in accordance with the external laws and regulations regarding prevention of conflict of interest situations in activities of public officials ⁴² . The rules of procedure of the board and council

⁴⁰ Council Decision No. PA 1.2./4-2 of 06 March 2020

⁴¹ Decision No. A1.1./1-2.1 of the minutes of the Shareholders' Meeting of 13 January 2023

⁴² Law On Prevention of Conflict of Interest in Activities of Public Officials

		of the Group companies set out obligations to comply with the external regulation and action in case of a conflict of interest or potential conflict of interest ⁴³ . When giving consent to the joining of positions, an external framework applies.
		The designated representative of the state shareholder supervises the handling of conflicts of interest and interconnection issues of state officials of Latvijas dzelzceļš, which are within the competence of the Board and Council of the capital company ⁴⁴ .
13.2.	The members of the council or the board do not take part in decisions on matters where the interests of the company conflict with the interests of the council, members of the board or persons related to them	○ The rules of procedure of the board and council of the companies of the Group set out obligations regarding compliance with the external regulation and action if a conflict of interest or potential conflict of interest has been identified.
13.3.	Persons subject to conflict of interest obligations get regular training on how to deal with conflict of interest situations	○ In 2023, training "Prevention of corruption and conflict of interest in the activities of state and local government institutions" and "Risks of corruption and standards of professional ethics" was organised for officials and employees of the Group.

GENERAL MEETING OF SHAREHOLDERS

Principle 14. The company provides shareholders with information about the conduct of the shareholders' meeting in a timely manner, providing all the necessary information for making decisions.

CRITERIA	FACTS
14.1 The company informs shareholders in good time of the agenda, proceedings and voting procedure of the general meeting of shareholders, as well as of any changes thereto	○ Shareholders' meetings are organised in accordance with the internal regulations of the Ministry of Transport "Procedures for the Management of State Capital Shares" ⁴⁵ . Latvijas dzelzceļš complies with the requirements of this Regulation. Latvijas dzelzceļš submits information on the agenda of the shareholders' meeting to the dependent companies within the specified time limits. The rules of procedure of the shareholder's meeting of dependent companies determine how meetings

⁴³ The policy of management of limited liability companies of "Latvijas dzelzceļš" Group, approved by the decision of the Council of VAS "Latvijas dzelzceļš" No.PA1.2./7-14 of June 18, 2021.

⁴⁴ Internal Regulations of the Ministry of Transport 27.09.2021. No. 01-02/31 "Procedures for the Management of State Capital Shares"

⁴⁵ Internal Regulations of the Ministry of Transport 27.09.2021. No. 01-02/31 "Procedures for the Management of State Capital Shares"

		of the shareholders of the Group of Limited Liability Companies are organised ⁴⁶ .
		AS "LatRailNet" is subject to the provisions of the Commercial Law, which regulate the organization and conduct of shareholders' meetings.
14.2	Concurrently with the announcement of the meeting, the company provides an opportunity for shareholders to get acquainted with the draft decisions on which it is originally planned to vote at the meeting. The Company immediately informs shareholders about additionally submitted draft decisions	○ The notification on convening of the shareholders' meeting shall be sent at least two weeks before the meeting (except for extraordinary meetings). Concurrently with the notification on convocation of the shareholders' meeting, the capital company shall submit all documents justifying the issue to be examined at the shareholders' meeting and related thereto, ensuring an opportunity for the shareholder's representatives to become acquainted with the submitted documents.
14.3	The company provides shareholders with the opportunity to submit questions on the issues included in the agenda and draft decisions before the shareholders' meeting	○ After identifying the opinions and evaluating the issue, the State Capital Share Management Department of the Ministry of Transport shall coordinate the draft decision, propose clarifications or inform the capital company that there are no grounds to bring the matter forward for consideration at the shareholders' meeting. The Department of State Capital Share Management prepares draft resolutions of the shareholders' meeting two working days before the shareholders' meeting and submits them for approval to the representative of the holder of state capital shares and the State Secretary. The representative of the holder of state capital shares may determine another deadline for the preparation and coordination of decisions of the shareholders' meeting.
14.4	Draft decisions and the documents attached thereto provide detailed, clear and complete information on the matter under consideration	○ Latvijas dzelzceļš ensures that the draft decisions and the documents attached thereto provide detailed, clear and complete information on the issue under consideration. The Rules of Procedure of the Board include provisions for the preparation and submission of documents to the Council, the Shareholders' Meeting and the ⁴⁷ holder of capital shares.

Principle 15. The company promotes effective engagement of shareholders in decision-making and the largest possible participation of shareholders in shareholders' meetings.

	CRITERIA		FACTS
15.1	General meetings of shareholders are convened and held at a place and time	○	100% of the capital shares of Latvijas dzelzceļš are owned by the State and held by the Ministry of Transport of the Republic of Latvia. Shareholders'

⁴⁶ The rules of procedure of the shareholder meetings of dependent companies were approved by the decision of the Board No. VL -25/154 of 14 April 2020.

⁴⁷ The Rules of Procedure of the Board of VAS "Latvijas dzelzceļš" were approved by the Decision of the Board of VAS "Latvijas dzelzceļš" No.VL-41/164 of 17 October 2019

<p>convenient for the shareholders</p>	<p>meetings are convened by law⁴⁸ in accordance with the procedures laid down and in compliance with binding internal regulations. General shareholders meetings are held at the premises of Latvijas dzelzceļš or the Ministry of Transport, or remotely via electronic means of communication⁴⁹.</p> <p>At the shareholder meetings of the dependent companies of Latvijas dzelzceļš, the shareholders are represented by the Board of Latvijas dzelzceļš, who also take decisions. The Shareholder elects the Chairman of the Board of Latvijas dzelzceļš or, in the event of his or her absence or, if he or she is present at the meeting, another member of the board of Latvijas dzelzceļš as the Chair of the meeting. Shareholder Meetings are usually convened at the registered office of Latvijas dzelzceļš or remotely⁵⁰.</p>
<p>15.2 The company provides shareholders with the possibility to participate remotely in the general meeting of shareholders</p>	<p>○ Shareholders' meetings may be held remotely via electronic means of communication⁵¹.</p> <p>The Shareholders' meetings of dependent companies of Latvijas dzelzceļš may also be performed remotely⁵².</p>
<p>15.3 The company determines the appropriate duration of the shareholders' meeting and gives shareholders the express their opinion during the meeting and obtain the necessary information for making decisions.</p>	<p>○ The duration of the meeting is determined depending on the items on the agenda and the progress of the discussion. The requirements for the preparation of documents for shareholder meetings are laid down in the internal regulations of the Ministry of Transport and the internal regulations of the Latvijas dzelzceļš Group, respectively⁵³.</p> <p>The general meetings of shareholders of Latvijas dzelzceļš is chaired by a representative of the shareholder, who represents 100% of the capital shares, therefore the shareholder has unlimited opportunities to express an opinion and obtain the necessary information for decision-making.</p> <p>The shareholder meetings of the dependent companies of Latvijas dzelzceļš are chaired by the Chairman of the Board of Latvijas dzelzceļš, therefore there is no doubt about the possibility of the shareholder to express an opinion and obtain the necessary information for decision-making.</p>

⁴⁸ Law on Management of Capital Shares of a Public Person and Capital Companies

⁴⁹ Internal Regulations of the Ministry of Transport 27.09.2021. No. 01-02/31 "Procedures for the Management of State Capital Shares"

⁵⁰ The rules of procedure of the shareholder meetings of dependent companies were approved by the decision of the Board No. VL -25/154 of 14 April 2020.

⁵¹ Internal Regulations of the Ministry of Transport 27.09.2021. No. 01-02/31 "Procedures for the Management of State Capital Shares"

⁵² The rules of procedure of the shareholder meetings of dependent companies were approved by the decision of the Board No. VL -25/154 of 14 April 2020.

⁵³ The rules of procedure of the shareholder meetings of dependent companies were approved by the decision of the Board No. VL -25/154 of 14 April 2020.

15.4 The company announces a new general meeting of shareholders if the items on the agenda cannot be dealt with in the time allowed	<p>○ When there is no possibility to consider all the items included on the shareholder meeting agenda within the scheduled time, these items are included in the agenda of the next meeting⁵⁴.</p> <p>In the event when the documents for the shareholders' meeting are not submitted in a timely manner or are not appropriate, then the issue is not considered.</p> <p>The dependent companies of Latvijas dzelzceļš announce a new shareholder meeting if it is not possible to examine all the topics included in the agenda of the meeting within the scheduled time.</p>
15.5 The company invite the members of the board and council, the candidates for the council, the auditor and the internal auditor, as well as other persons to participate in the general meeting of shareholders in accordance with the matters to be considered at the meeting	<p>○ Members of the council and the board shall participate in the shareholders' meeting. The auditor shall participate in the shareholders' meeting when considering the issue of approval of the annual report. Other persons shall be invited in accordance with the instructions of the representative of the shareholder and the issues to be discussed at the meeting.</p>
15.6 The shareholders' meeting shall take decisions in accordance with previously announced draft decisions	<p>○ The shareholders' meeting shall usually take decisions in accordance with previously announced draft decisions. If necessary, the shareholder may initiate editorial changes or another decision.</p>

Principle 16. The company develops and discusses a dividend policy with shareholders.

CRITERIA	FACTS
16.1. The company has developed and published an up-to-date dividend policy	<p>○ Latvijas dzelzceļš complies with the procedures for determining the expected share of profit to be paid in dividends, which is laid down in the Law on Management of Capital Shares of a Public Person and Capital Companies and cabinet regulations⁵⁵ issued in accordance with it.</p> <p>The share of profit to be paid in dividends of Latvijas dzelzceļš and dependent companies is usually planned for a period of five years and is defined in the medium-term operational strategy.</p>
16.2. Dividend policy is discussed with shareholders during the shareholders' meeting	<p>○ The criterion does not apply to Latvijas dzelzceļš. See 16.1.</p>

⁵⁴ Internal Regulations of the Ministry of Transport 27.09.2021. No. 01-02/31 "Procedures for the Management of State Capital Shares"

⁵⁵ 25.01.2022. Cabinet Regulation No. 72 Procedures for Forecasting, Determining and Making Payments for the Use of State Capital

TRANSPARENCY OF THE COMPANY'S ACTIVITIES

Principle 17. The company regularly and timely informs shareholders and other stakeholders about the company's economic activity, financial results, management and other topical issues

CRITERIA	FACTS
17.1 The company discloses complete, accurate, objective, current and truthful information in a timely manner	○ Latvijas dzelzceļš discloses complete, accurate, objective, up-to-date and truthful information about the Group's companies on its website in accordance with the requirements ⁵⁶ of external legislation and company news. In 2023, the Board approved the procedure for publishing information of Latvijas dzelzceļš Group ⁵⁷ .
17.2 The company discloses information to all shareholders simultaneously and to the same extent	○ The criterion is not applicable, as Latvijas dzelzceļš has only one shareholder. Similarly, dependent companies have only one shareholder.
17.3 A company discloses on its website information about the enterprise's management, strategy or lines of business and publishes its financial statements and other information in accordance with Note 1	○ Latvijas dzelzceļš and dependent companies shall publish information in accordance with Section 58 of the Law on Management of Capital Shares of a Public Person and Capital Companies, as well as publish information in accordance with Annex 1 to the Code. Since 2016, Latvijas dzelzceļš has been preparing and publishing a sustainability report on its website.
17.4 The company provides information both in Latvian and in at least one other language that is understandable to the majority of the company's foreign shareholders and other interested persons	○ Information on the website of Latvijas dzelzceļš is available in Latvian and English.

⁵⁶ Law on the Governance of the Capital Shares of a Public Person and Capital Companies

⁵⁷ The procedure for publishing information of Latvijas Dzelzceļš Group was approved by decision of the Board No.VL-1.6/400-2023 of 19 December 2023

INDEPENDENT AUDITOR'S REPORT



Independent Auditor's Report

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

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of VAS "Latvijas dzelzceļš" (the "Company") and its subsidiaries (together the "Group") as at 31 December 2023, and the Group's consolidated financial performance and consolidated cash flows for the year ended 31 December 2023 in accordance with the IFRS Accounting Standards as adopted by the European Union (EU).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2023,
- the consolidated statement of comprehensive income for the year ended 31 December 2023,
- the consolidated statement of financial position as at 31 December 2023,
- the consolidated statement of changes in equity for the year ended 31 December 2023,
- the consolidated statement of cash flows for the year ended 31 December 2023, and
- the notes to the consolidated 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 Consolidated Financial Statements section of our report.

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

Independence

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

Reporting on Other Information Including the Management Report

Management is responsible for the other information. The other information comprises

- Information on the Group as set out on pages 3 to 4 of the consolidated annual report,
- the Management Report on the economic activity of Latvijas dzelzceļš Group in 2023, as set out on pages 5 to 17 of the consolidated annual report,
- VAS "Latvijas dzelzceļš" Statement on corporate governance in Latvijas dzelzceļš Group in 2023, as set out on pages 61 to 79 of the consolidated annual report,

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

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

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INDEPENDENT AUDITOR'S REPORT



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

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

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

- the information on the Group and information given in the Management Report and in VAS "Latvijas dzelzceļš" Statement on corporate governance in Latvijas dzelzceļš Group in 2023 for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements; and
- the Management Report has been prepared in accordance with requirements of the Law on Annual Reports and Consolidated Annual Reports.

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

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

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

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

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

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers SIA
 Certified audit company
 Licence No. 5

Jana Smirnova
 Member of the Board
 Certified auditor in charge
 Certificate No.188

Riga, Latvia
 27 March 2024

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