LATVIJAS
DZELZCEĻŠ

State Joint Stock Company "Latvijas dzelzceļš"

Annual report for 2019

TABLE OF CONTENTS

MANAGEMENT REPORT

ON THE OPERATING ACTIVITY OF THE STATE JOINT STOCK COMPANY LATVIJAS DZELZCEĻŠ IN 2019

1. AN OVERVIEW OF THE LATVIJAS DZELZCEĻŠ VAS

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

In accordance with the Indicative Railway Infrastructure Development Plan for 2018-2022 approved by the Cabinet of Ministers and VAS Latvijas dzelzceļš medium-term operational strategy for 2017-2022, the main task of *Latvijas dzelzceļš* is to ensure the governance of the state public railway infrastructure and provide secure, top quality and efficient railway and logistic services to serve the best interests of the Latvian State and the national economy. *Latvijas dzelzceļš*, as the manager of the public-use railway infrastructure, currently owns an extended network of 3 161.16 km, including the technologically linked station and access roads as well as other infrastructure objects.

The Company is the parent company of the Latvijas dzelzceļš Group (hereinafter - *the Group*). *The Group* consists of the parent company and seven subsidiaries (six companies have a direct decisive influence and one has an indirect decisive influence), which together provide customers with a wide range of railway services.

Latvijas dzelzceļš provides the minimum public access rail access services referred to in Section 12.[1], Paragraph one of the Railway Law, and access to public railway infrastructure that connects the railway infrastructure with service stations, freight wagon processing, wagon maintenance and inspection services, electricity distribution and trading services, lease services, information technology services, electronic communications services, as well as principal services.

SIA "LDZ CARGO" is engaged in providing domestic as well as international railway freight transport services, traction services, rolling stock lease services, as well as in organising international passenger transport services. SIA "LDZ infrastruktūra" is engaged in providing rail track machinery repairs and lease as well as providing rail track welding services. SIA "LDZ ritošā sastāva serviss" is engaged in providing locomotive and rolling stock repair, locomotive staffing and upgrading services, locomotive rental. SIA "LDZ apsardze" provides physical and technical security services to the Group's companies, other companies and individuals, as well as guards cargo on the way. SIA "LDZ Loģistika" is engaged in providing forwarding and logistics services, as well as in attracting new freight flows and promoting railway freight transport between European and Asian countries. AS "LatRailNet" is the performer of essential functions of the railway infrastructure management. It develops and approves the infrastructure charges and decides on allocation of railway infrastructure capacity and on scheduling the trains of a particular carrier. The subsidiary of SIA "LDZ ritošā sastāva serviss" – SIA "Rīgas Vagonbūves uzņēmums Baltija" was established with a view to developing rolling stock manufacturing in Latvia.

The main task of *Latvijas dzelzceļš* in the field of *the Group's* management is to ensure the development and competitiveness of *the Group's* business lines, achieving better results than would be possible if each business line operates separately, as well as to ensure compliance with good governance practices throughout *the Group*.

Assessing the performance of *the Group's* companies in the field of sustainable development and good management, in June 2019, the Sustainability Index experts re-assigned *Latvijas dzelzceļš* a Platinum rating, but its affiliated companies received the following ratings: SIA "LDZ CARGO" and SIA "LDZ ritošā sastāva serviss"– Gold category, SIA "LDZ apsardze" – Silver category and SIA "LDZ Loģistika" – Bronze category. SIA "LDZ apsardze" and SIA "LDZ Loģistika" participated for the first time in the Sustainability Index, achieving highly appreciated results for the first time participation.

Since 2012, *the Company* has been included in the Advanced Cooperation Program of the Ministry of Finance, the aim of which is to promote closer and more efficient cooperation between taxpayers and the tax administration and to reduce the administrative burden. As a gold level participant of the Advanced Cooperation Program, *Latvijas dzelzceļš* receives the benefits and advantages specified in legal acts.

In 2019, the average number of employees is 6 345, and compared to 2018, it has decreased by 94 employees. Taking into account the tendencies of cargo transportation, at the end of 2019 the review of the Company's processes was started, which also affected the reduction of the number of employees. In 2019, the average number of employees of *the Group* is 10 155 employees, and compared to 2018, it has decreased by 245 employees.

2. OPERATING PERFORMANCE

When evaluating the operation of *Latvijas dzelzceļš*, it is necessary to analyze the indicators of the volume of services provided. The most important performance indicator is the number of km traveled by trains, which is the basis for calculating the infrastructure charge and determining the depreciation of the infrastructure. In 2019, the number of train-km in freight transport, compared to 2018, has decreased by 14.2%, but in passenger transport - increased by 0.3%.

In 2019, the public use infrastructure of the *Latvijas dzelzceļš* was used to transport 41,490 thousand tons of cargo, performing 8 571 thousand train-km, and 18 623 thousand passengers, performing 6 135 thousand train-km (incl. SIA "Gulbenes-Alūksnes bānītis" - 48.8 thousand train-km, Lietuvos geležinkeliai AB - 8.8 thousand train-km, LG Keleiviams UAB - 4.7 thousand train-km).

The Company's economic activity includes the provision of cargo transportation. The volume of cargo transportation in 2019 reached 41 490 thousand tons of cargo, which is about 7 770 thousand tons or 15.8% less than in 2018.

The largest share in transportation is import transportation, which makes 79.4% of the total transportation. This amount in 2019 is 32 949 thousand tons, which has decreased by 18.6%, including transportation through port stations decreased by 19.7%.

Analyzing the structure of freight transportation, it can be seen that the largest share or 42.1% of transported goods is accounted for coal, but its volume has decreased by 22.9% compared to the corresponding period of the previous year. The second largest share - 22.7% - is for transportation of oil and oil products, which were transported by 16.0% less than in 2018. In turn, in 2019, compared to 2018, timber transportation has increased by 21.0% - its share is 4.8% of the total cargo transportation. The volume of chemical cargo transportation has also increased by 16.6%, and its share is 4.7%.

In 2019, the net revenue is EUR 183 280 thousand, which is by EUR 26 151 thousand (12.5%) less than in 2018. In 2019, as a result of economic activity, the profit was EUR 32 thousand; in 2018 the profit was EUR 4 178 thousand.

In 2019, the decline in revenue was due to three key factors, such as declining in freight traffic, changes in the calculation of the minimum access charge and changes in the financing of passenger infrastructure.

As of 1 July 2019, the new charge for the use of the public railway infrastructure operated by the *Latvijas dzelzceļš* has come into effect. Pursuant to Commission Implementing Regulation (EU) 2015/909 of 12 June 2015 on the procedure for calculating the costs directly incurred in providing a train service (hereinafter Regulation EU 2015/909), the charge for the minimum access package shall only include the costs incurred directly as a result of operating the train service. In accordance with the changes in the infrastructure charge calculation procedure, on 17.06.2019 AS "LatRailNet" approved the charge for the public passenger transport service offered under the public service contract. This charge takes effect from 1 July 2019 and is lower than the full cost of maintaining and renewing the infrastructure of this market segment.

According to the planned volume of rail passenger transportation in 2019, which is provided by AS "Pasažieru vilciens" in accordance with the public order, and with the service fees approved by AS "LatRailNet" on 1 July, 2019 "Minimum access package and access to infrastructure connecting service facilities", AS "Pasažieru vilciens" payments to *Latvijas dzelzceļš* for the minimum access service package in the 2nd half of 2019 were three times lower than the payments for the 1st half of the 2019. Before 1 July 2019 AS "Pasažieru vilciens" covered the full amount of the infrastructure charges. Considering the changes in the minimum access package fee, which entered into force on 1 July 2019, Ministry of Transport provided to *Latvijas Dzelzceļš* a grant of EUR 13 601 673 to the public railway infrastructure manager to ensure financial equilibrium and a grant of EUR 1 215 000 for the maintenance and renewal of service places (passenger stations and stop points).

Revenues from all carriers for the minimum access service package and the received state grant in 2019 amounted to EUR 127 465 thousand or 69.6% of net turnover, which, compared to 2018, is a decrease of 12.4%. Compared to 2018, revenues related to additional services of the infrastructure manager have also decreased by EUR 6 183 thousand (15.5%).

Pursuant to Cabinet of Ministers' Order No. 588 "On the Indicative Railway Infrastructure Development Plan for 2018-2022" point 5.2.2., if the infrastructure manager has a deficit of financial resources, the profit from other business lines of the infrastructure manager should be used for a financial balance.

Thus, in order to ensure the financial stability of *Latvijas dzelzceļš*, the Board of *the Company* decided to request the subsidiaries to pay dividends from the retained earnings in amount of EUR 14 486 thousand. With the dividends income, the profit for the reporting year is EUR 32 thousand.

In order to optimize *the Company* 's operations and ensure *the Company's* future economic activities in the changing market conditions, in the summer of 2019 a procurement process was initiated for the selection of external consultants to review *the Company* 's existing business model and develop a new business model.

As at 31 December 2019, *the* Company's current liabilities exceed its current assets by EUR 45 523 thousand. Current liabilities include deferred income of EUR 20 572 thousand, which is related to European Union (EU) projects and investments of state budget funds in the public railway infrastructure, and are gradually written off in revenues, therefore there is a low risk that financial resources will be needed to cover these liabilities. The total liquidity ratio is 0.5, but if deferred income is excluded from the current liabilities, it is 0.7. The concluded credit agreements with banks specify the financial indicators that *the Company* must comply with during the term of the agreement. According to the calculations, one of the indicators was not met, but all the other conditions were met. In February 2020, letters were sent to two banks with an explanation of deviations from the indicators and a request not to request early repayment of the issued loan. Meetings with banks were also organized and the financial situation was explained, as the other criteria are met and meets the conditions of the banks. At the time of preparing the report, no information has been received from banks indicating the possible requirement for early repayment of loans.

Liquidity is also affected by the application of IFRS 16 "Lease" from the 1st of January 2019, which resulted in the increase of the short term liabilities by EUR 2 426 thousand.

The share of liabilities in the balance sheet (total liabilities against total assets), compared to 2018, has decreased: ratio as of 31.12.2019 is 0.62 (previously 0.64). The main criteria for assessing the amount of liabilities is the level of financial risk. The risk is influenced by the sources and types of asset financing: as the share of borrowed capital in the liabilities side of the balance sheet increases, the level of financial risk increases. Creditors' liabilities include deferred income related to EU projects and state budget investments in railway public infrastructure, excluding deferred income from creditors, the share of liabilities in the balance sheet is 0.27. When evaluating the financial indicators, it should be taken into account that the co-financing received from the European Community funds and the state for EU investment projects should be disclosed in liabilities on the balance sheet under "Deferred income" and written off according to the current year financial aid received in the profit and loss account "Other operating income ', but depreciation of items is included in "Cost of sales".

Despite the decrease in freight carriage volumes, the Company continued to ensure the quality of infrastructure and service provision and the corresponding level of safety, and in 2019 the total amount of Latvian railway capital investments amounted to EUR 23 695 thousand, including:

- EUR 16 237 thousand were invested in renovation, including:
  - EUR 13 194 thousand on capital repairs;
  - EUR 972 thousand on upgrading the existing IT systems;
  - EUR 2 071 thousand on equipment acquired during the reporting period for rail track maintenance and repairs, as well as equipment for the development of information systems and means of communication and other intangibles.
- EUR 7 458 thousand invested in infrastructure development, including:
  - EUR 2 657 thousand on modernisation;
  - EUR 301 thousand on innovative technology adoption;
  - EUR 4 500 thousand on the "Eksporta Rajons" real estate. This investment was required under the multi-annual agreement concluded on 9 November 2018 between the Ministry of Transport and *Latvijas dzelzceļš* on planning the maintenance and development and financing of the existing public railway infrastructure managed by *Latvijas dzelzceļš*.

3. OBJECTIVES AND FUTURE DEVELOPMENTS

With the rapid decline in freight volumes, work has begun and is continuing to improve *the Company's* performance by reviewing business, organizational and technological processes to increase *the Company's* operating efficiency and reduce costs, and to ensure *the Company's* future competitive and sustainable performance.

On 9 December 2019, the Board made decision No.VL-51/225 on the VAS "Latvijas dzelzceļš" business processes review and changes in the organizational structure; in 2020, the implementation of this decision will continue. As a significant part of *Latvijas dzelzceļš* costs relates to employee resources - salary costs, after reviewing the organizational and technological processes, in 2020 the optimization of the number of employees will continue.

Downsizing of staff is carried out in close cooperation with Latvian Railwaymen and Transport Union (LDz) and the State Employment Agency. The most significant reduction in the number of employees is budgeted to occur in the first half of 2020.

The budget for 2020 was prepared on the basis of the reduction of the volume of existing and forecasted freight transportation in comparison with previous periods, however, the budget also included the necessary investments for the maintenance of infrastructure at the appropriate level of quality and safety.

Latvijas dzelzceļš and the entire national transport and logistics sector are in direct competition with their nearest neighbouring countries, i.e., Lithuania and Estonia, to attract transportation to the Latvian transit corridor. The efficiency of infrastructure services will be one of the decisive factors in the competition for rail freight transport.

Therefore, with a view to future development and competitiveness, along with regular capital investments in maintaining the quality and safety level of infrastructure, *Latvijas dzelzceļš* will continue work on the ongoing project of EU funds and Cohesion Policy funds of major project such as the modernization of the Riga railway junction Sarkandaugava – Mangaļi – Ziemeļblāzma, the contract for the construction of which was concluded in 2019. Implementing of the passenger infrastructure modernisation project in accordance with the investment plans specified in the Indicative Railway Infrastructure Development Plan 2018-2022 and in the Latvijas dzelzceļš Medium-Term Operational Strategy for 2017-2022 is also planned.

Under the Law on Pollution and Cabinet Regulation No. 16 "Procedure for the assessment and management of noise" of 7 January 2014, *Latvijas dzelzceļš* has developed an Action plan for noise reduction for the railway lines with over 30,000 trains per year for the period for the years 2019 to 2023, approved by the Ministry of Environmental Protection and Regional Development on 27 February 2019 and approved under the decision No. VL-7/28 of the Board of *Latvijas dzelzceļš* of 21 March 2019. The plan identifies areas of acoustic discomfort and identifies primary anti-noise measures to be taken. The environmental management specialists of the Latvijas dzelzceļš continued work in the working groups of the Ministry of Environmental Protection and Regional Development and Riga City Council, seeking to find solutions to reduce transport noise and improve acoustic noise situation in urban and extra-urban areas.

On 22 November 2019, the Board of *Latvijas dzelzceļš* approved the risk management policy of the Latvijas dzelzceļš Group under its decision No.VL-45/195. The policy aims to create integrated and unified risk management for capital companies that enables the timely identification of risk factors that may threaten the development and financial stability of the company, as well as safe and sustainable operation, and defines risk management principles within *the Group* and risk management procedures which lay down a methodology for the risk identification, assessment, mitigation and control measures, establishing and maintaining a risk register and preparing regular reports to *the Group's* Board and Council. By adopting this policy, an integrated risk management approach within the Group was established, enabling the *Latvijas dzelzceļš* to centrally monitor and control the key risks.

In the light of trends in freight transport and the possible change in the business model of *the Group*, current strategic documents will be reviewed in 2020.

It is planned to address the difficulties in maintaining the financial stability resulting from the decline in freight transport and the lack of financing for the maintenance of passenger infrastructure in accordance with the procedures laid down in the Multi-annual Agreement.

In 2020, *the Group's* and *the Company's* key priorities and objectives will be to significantly improve *the Company's* operational efficiency and to restore and strengthen financial balance, as well as to implement and stabilize newly developed organizational and technological processes.

In 2020, a new business model for *the Group* will be developed, an action plan for its implementation will be developed and its implementation will begin. In line with the new business model, medium-term strategies will be developed for both *the Company* and its subsidiaries.

Along with the reorganization and promoting efficiency of *the Group's* operations in 2020, significant attention will be paid to the diversification of the target markets and cargo segments by attracting freight into new markets, developing new services and more.

Along with these objectives, *the Group* will actively work to develop infrastructure that is convenient and efficient for the needs of passengers, and will continue to ensure safety on and off the track.

Considering the intensive change processes taking place in 2020, *the Company's* management team will ensure effective financial and personnel management, as well as comprehensive and transparent communication both within the company and with customers, partners, stakeholders and the general public.

4. RESEARCH AND DEVELOPMENT ACTIVITIES

Recognising the challenges of the coming years in attracting qualified workforce, *Latvijas dzelzceļš* not only develops further education opportunities offered by *the Company's* Training Centre, but in cooperation with Riga Technical University has introduced several new specializations in railway electric systems and railway telecommunications training programmes in recent years. The acquisition of these programmes will enable us not only to develop the technological capacity of *the Company* and *the Group*, but also to provide the specialists necessary for the maintenance of the future electrified railway infrastructure.

In 2019, *Latvijas dzelzceļš* together with other major state-owned companies has joined the Innovation Forum, initiated by the Prime Minister, in cooperation with the Cross-Border Coordination Centre, the Ministry of Economics, the Ministry of Education and Science, etc. institutions to promote a commercially sustainable culture of innovation, R&D and exchange of ideas within the business environment.

5. BRANCHES AND REPRESENTATIVE OFFICES ABROAD

In 2012, a representative office of *Latvijas dzelzceļš* was established in the Russian capital Moscow. The representative office carries out sales promotion and marketing activities.

In 2017, *Latvijas dzelzceļš* opened its representative office in Minsk, the capital of Belarus.

The Company does not have any foreign subsidiaries.

6. EVENTS AFTER THE DATE OF PREPARATION OF THE FINANCIAL STATEMENTS FOR 2019

On March 13, 2020, changes in the management of *Latvijas dzelzceļš* came into effect - the Supervisory Council of *Latvijas dzelzceļš* approved the position of Chairman of the Board Maris Kleinbergs, who has been temporary chairman of *Latvijas dzelzceļš* since August 12, 2019. To reduce the number of members in the Board, Ainis Stūrmanis, who was responsible for the company's development projects, has been recalled from the Board; from now on; *the Company's* development matters will be the responsibility of the Chairman of the Board. Vita Balode - Andrūsa was appointed to the board of *Latvijas dzelzceļš*, who will be responsible for *the Company's* financial matters. Maris Kleinbergs will assume the position of Chairman of the Board of *Latvijas dzelzceļš* immediately after the decision of the Board, while Vita Balode - Andrūsa will take up her position of the member of the Board of *Latvijas dzelzceļš* on 1st June this year. Until June 1, 2020, Andris Lubāns will continue to perform the duties as a temporary member of the Board of *Latvijas dzelzceļš*.

Freight trends in the beginning of 2020, as well as current turbulences on the global and regional economies, evidences that freight volumes will not improve significantly. In addition, the existence of the novel coronavirus Covid-19 was confirmed in early 2020 and by now it has spread across the world, including Latvia, causing disruption to businesses and economic activity. *The Company* considers this outbreak to be a non-adjusting post balance sheet event. As the situation is uncertain and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on *the Company*. Thus, although it is in the interest of the Latvian economy to maintain the railway network in full, despite the stringent cost optimization and efficiency improvement measures launched at the end of 2019, *Latvijas dzelzceļš* will not be able to maintain financial stability in 2020 as its revenue has fallen so sharply that it does not cover costs which have already been reduced at the lowest possible level while not compromising the quality of railway infrastructure and traffic safety.

In response to changes in cargo volumes, *Latvijas dzelzceļš*, reviewing the approved budget for 2020, in the beginning of 2020 have prepared budget amendments, assuming that the total volume of cargo transportation will significantly decrease. In order to implement the planned budget, *the Group* has developed the crisis action plan, which envisages a number of measures that will reduce the total amount of expenses. As a significant part of Latvijas dzelzceļš expenses relates to employee costs (labour expense), after reviewing the organizational and technological processes, in 2020 the optimization of the number of employees will continue. In the 1st quarter of 2020, 655 employees were made redundant.

On 20 March 2020, at the meeting of the shareholders of the dependent companies, it was decided to pay dividends from the previous years retained earnings of the dependent companies, as a result of which *the Company's* cash flow was improved by EUR 19 180 thousand.

Work has started in 2020 and a new business model of *the Group* together with the action plan is currently being developed, and its implementation will start in the second half of 2020. The medium-term strategies for both *Latvijas dzelzceļš* and its subsidiaries will be developed in accordance with the new business model.

On 17 March 2020, in accordance with the Multi-annual Agreement "On Planning and Financing the Maintenance and Development of Public Use Railway Infrastructure Under the Management of Latvijas dzelzceļš" (hereinafter - the Multi-Annual Agreement), which is signed by *Latvijas dzelzceļš* and the Ministry of Transport, *Latvijas dzelzceļš* has submitted to the Ministry of Transport the Informative Report on Ensuring the Financial Balance of the Railway Infrastructure Manager, as well as informed the Ministry of Transport on the necessary state funding to fulfil the obligations set out in the Multi-annual Agreement, taking into account the circumstances described above.

Based on the provisions of the Multi-Annual Agreement, *Latvijas dzelzceļš* has informed the Ministry of Transport that it is expected that the infrastructure manager's financial stability can be breached as soon as in the 1st quarter of 2020; therefore *Latvias dzelzceļš* needs additional funding from the state budget to ensure its financial stability. *Latvias dzelzceļš* also needs additional financial resources to compensate full ineligible costs of the passenger transport services provided in connection with the public service contract (hereinafter - public transport services) throughout 2020.

The loan agreements concluded with the bank specify the financial covenants that *Latvijas dzelzceļš* must observe during the term of the agreement. One of the covenants was not met, while other covenants were met. The letters were sent to two banks in February 2020 explaining deviations in the covenant and requesting them not to request early repayment of the loan. *The Group* organised meetings with the banks to explain financial situation, as all other criteria are met and fulfilled according to the terms and conditions set by the banks. At the date of issue of this Annual report there is no information received from the banks indicating any potential claim for early repayment of the loans.

On January 28, 2020, the Cabinet of Ministers, by order No.35, determined that *Latvijas dzelzceļš* will not pay dividends from the profit of 2018, but will divert the profit part of EUR 2 922 272 for the development and renovation of the public railway infrastructure including creation of a reserve, which may be used for implementation of public railway infrastructure projects planned by the State Joint Stock Company "Latvijas dzelzceļš" in accordance with the medium-term operational strategy of the joint stock company for 2017-2022, and a profit share of EUR 1 255 492 shall be allocated to finance public passenger railway infrastructure in the passenger segment in 2019.

Thus, the management of *Latvijas dzelzceļš* concludes that the going concern principle is appropriately applied in the preparation of these financial statements, based on the development of the new business model, review of the crisis plan and organizational and technological processes that will reduce costs in the future, and the receipt of the necessary public funding under the Multi-Annual Agreement. The main task of *the Company* is to ensure the management of the state public railway infrastructure and safe, high-quality and efficient railway and logistics services in the interests of the state, society and the Latvian economy.

However, there is still uncertainty which involves:

- Uncertainty regarding receipt of additional financial resources necessary for *Latvijas dzelzceļš* and timing of receipt of these resources to compensate the costs of maintenance and renovation of railway infrastructure in full for the provision of public transport services throughout 2020 in accordance with the requirements of the concluded Multi-Annual Agreement.
- Receipt of state financing for ensuring the financial balance of *Latvijas dzelzceļš* within the framework of the Multi-Annual Agreement and time of receipt of financing.

The financial statements of *the Company* have been prepared on a going concern basis and does not include adjustments, including the revaluation of assets and liabilities that may be required if the going concern basis of accounting were not applied.

7. PROPOSALS FOR THE DISTRIBUTION OF COMPANY'S PROFIT

The profit in 2019 is EUR 32 thousand.

Under section 28 (part 1, part 2) of the Public Person's Shares and Companies Governance Act, the profit share expected to be paid in dividends and the profit share actually payable in dividends must be set according to *the Company's* medium-term business strategy, the objectives prescribed by that strategy, and the extent to which those objectives are being achieved. Based on its medium-term business strategy, *the Company's* Board should prepare a proposal for the profit share expected to be paid in dividends and should submit it to the shareholder.

Chapter 17 of *the Company's* medium-term business strategy for 2017–2022, approved by the Council decision No. PA 1.2./11-1 of 8 November 2018, provides that for the strategy period, it is crucial to set a different share of *the Company's* net profit payable to the State in dividends, leaving the profit at the Company's disposal and applying it for the development and renovation of the public railway infrastructure, including creating a reserve to be used for maintaining *the Company's* business sustainability and for carrying out its intended public railway infrastructure projects.

An opinion on *the Company's* medium-term business strategy for 2017–2022 expressed in the Interdepartmental Coordination Centre's letter No. 1.2-5.1/159-IP of 30 November 2017 supported the setting of such a different profit share payable in dividends.

By the Oder No. 588 of 6 November 2018 the Cabinet of Ministers has approved the "Indicative Railway Infrastructure Development Plan for 2018-2022" (furhter – the Plan), and on 9 November 2018 the Ministry of Transport and *Latvijas dzelzceļš* as infrastructure manager entered into a Multi-Annual Agreement on the planning and financing the maintenance and development of the public use railway infrastructure managed by *Latvijas dzelzceļš* for the period from 9 November 2018 to 31 December 2022.

The mechanism for ensuring the public use railway infrastructure manager's financial stability prescribed by the Plan may operate and investment projects may be carried out if the conceptually adopted decision of the Cabinet of Ministers setting *the Company's* profit share payable to the State in dividends in the amount of 0% of *the Company's* net profit for 2018–2021 (Cabinet Order No. 212 of 15 May 2018 On a Different Profit Share of *Latvijas dzelzceļš* Payable in Dividends for 2018–2021) is incorporated into the annual National Budget Bill and the Medium-Term Budgetary Framework Bill for the relevant periods.

8. STATEMENT OF THE BOARD'S RESPONSIBILITY

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

The financial statements on pages 14 to 59 have been prepared in accordance with the accounting records and source documents and present fairly the financial position of *the Company* as of 31 December 2019, its results and cash flows for the year ended 31 December 2019.

The aforementioned financial statement has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU on a going concern basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statement.

The management of *the Company* is responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets and the prevention and detection of fraud and other irregularities in *the Company*. The Management is responsible for meeting the legal requirements of the Republic of Latvia.

Riga, 23 April 2020

Chairman of the Board	M.Kleinbergs
Member of the Board	A.Lubāns
Member of the Board	Ē.Šmuksts

Independent Auditor’s Report

To the Shareholder of VAS “Latvijas dzelzceļš”

Our qualified opinion

In our opinion, except for the possible effects of the matter described in paragraph 1, and the effects of the matter described in paragraph 2 in the Basis for qualified opinion section of our report, the financial statements set out on pages 14 to 59 of the annual report give a true and fair view of the financial position of VAS “Latvijas dzelzceļš” (the Company) as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2019,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements which include significant accounting policies and other explanatory information.

Basis for qualified opinion

1) The Company’s statement of financial position as at 31 December 2019 includes fixed assets and right-of-use assets with a total carrying amount of EUR 637,850 thousand. During the financial year the Company experienced a significant down-turn in freight transportation volumes, that we consider to be an indicator of impairment in accordance with IAS 36 ‘Impairment of assets’. However, the management has not carried out an impairment review to determine whether the carrying amount of fixed assets and right-of-use assets should be reduced and an impairment loss recognised. In the absence of an estimate by the Company of the recoverable amount of the fixed assets and right-of-use assets, we were unable to satisfy ourselves as to the carrying amount of these assets as at 31 December 2019.
2) The Company’s non-current liabilities recognised in the statement of financial position as at 31 December 2019 include borrowings from financial institutions in the amount of EUR 54,538 thousand. As disclosed in note 27 to the financial statements the Company breached the covenants specified in the loan agreements. Thus, as at 31 December 2019 these borrowings become repayable on demand and the Company did not have the right to defer settlement of these liabilities for at least twelve months. According to the requirements of IAS 1 'Presentation of financial statements’ those borrowings should have been classified as short term. As a result, in our view, the Company’s short-term liabilities are understated and its long-term liabilities overstated by the above amount as at 31 December 2019.

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

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

Independence

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

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

Material uncertainty relating to going concern

We draw attention to note 40 *Going concern* in the financial statements. The Company's current liabilities exceed its current assets by EUR 45,523 thousand at 31 December 2019, however taking into account the amount mentioned in point 2 of the Basis for qualified opinion above and excluding deferred income, the net current liabilities amount to EUR 77,992 thousand. In addition, the revenues for the year ended 31 December 2019 have declined significantly and the Company expects further decline in cargo and passenger transportation. Therefore, the Company's ability to continue as a going concern depends on the financing from the government of the Republic of Latvia, and maintaining the existing financing from banks despite the breach of bank covenants. These conditions, along with other matters as set forth in note 40, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not further qualified in this respect.

Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises the Management Report, as set out on pages 3 to 10 of the accompanying annual report, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the other information. As described in paragraph 2 of the Basis for qualified opinion section above, the Company has not reclassified its borrowings for which it has breached loan covenants to current liabilities. We have concluded that the Management Report is materially misstated for the same reasons with respect to the amounts or other items mentioned in the Basis for qualified opinion section above.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Member of the Board

Terēze Labzova-Ceicāne
Certified auditor in charge
Certificate No.184

Riga, Latvia
23 April 2020

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FINANCIAL STATEMENTS

COMBINED STATEMENT OF COMPREHENSIVE INCOME FOR 2019

(EUR)

	NOTE	2019	2018
Revenue	4	183 279 901	209 430 996
Cost of goods sold	5	(200 252 878)	(200 150 681)
Gross profit or loss		**(16 972 977)**	**9 280 315**
Administration costs	6	(16 072 529)	(15 929 280)
Other operating income	7	23 985 722	27 838 899
Other operating expenses	8	(4 085 888)	(4 515 762)
Income from participating interests:		14 815 799	1 342 994
- capital of subsidiaries	9	14 486 030	567 354
- capital of other companies	10	329 769	775 640
Financial income	11	600 237	653 213
Impairment adjustments for long and short term financial investments		-	(12 328 137)
Financial costs	11	(2 237 934)	(2 164 478)
Profit or loss before corporate income tax		**32 430**	**4 177 764**
Corporate income tax		-	-
Profit for the reporting year		**32 430**	**4 177 764**
Profit for the year and consolidated income attributable to shareholders		**32 430**	**4 177 764**

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

Riga, 23 April 2020

Chairman of the Board	M. Kleinbergs
Member of the Board	A. Lubāns
Member of the Board	Ē. Šmuksts

The financial statements have been prepared by the Finance Directorate of VAS "Latvijas dzelzceļš":

Deputy Chief Financial Officer, Head of Finance Department	S.Gasjūna

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

(EUR)

ASSETS	NOTE	31.12.2019.	31.12.2018.
Long-term investments			
Property, plant and equipment	13	626 626 699	653 885 752
Right of use assets	14	11 222 987	-
Intangible assets	15	1 557 634	1 423 784
Advances for property, plant and equipment		771	4 108
Investments in subsidiaries	17	114 421 718	114 421 718
Loans to affiliated companies	19	43 637 613	47 961 358
Other securities and investments	20	84 108	84 108
Total long-term investments		**797 551 530**	**817 780 828**
Current assets			
Inventories	21	11 772 866	7 096 358
Trade and other receivables	22	3 567 011	7 259 110
Debts of affiliated companies	39	10 015 924	10 625 710
Corporate income tax	12	30 974	974
Cash and cash equivalents	23	21 428 257	34 797 659
Total current assets		**46 815 032**	**59 779 811**
Total assets		**844 366 562**	**877 560 639**

(continued on the next page)

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019 (CONTINUED)

(EUR)

EQUITY AND LIABILITIES	NOTE	31.12.2019.	31.12.2018.
Equity and liabilities			
Equity			
Share capital	24	256 720 375	256 720 375
Reserves and retained earnings	25	62 118 605	62 086 175
Total equity		**318 838 980**	**318 806 550**
Liabilities			
Non-current liabilities			
Provisions	26	126 684	162 078
Borrowings from credit institutions	27	148 828 298	165 409 358
Other borrowings	28	-	2 203 567
Trade payables		486 263	486 263
Lease liabilities		8 295 331	-
Lease liabilities to affiliated companies		1 062 957	-
Deferred income	29	274 390 157	290 353 805
Total long-term liabilities		**433 189 690**	**458 615 071**
Current liabilities			
Borrowings from credit institutions	27	40 359 060	34 695 612
Other borrowings	28	-	117 004
Provisions	26	1 858 218	3 460 852
Trade and other payables		17 207 561	28 654 400
Payables to affiliated companies	39	2 851 741	3 687 637
Taxes and national social insurance mandatory contributions	30	5 566 204	10 017 857
Lease liabilities		1 889 571	-
Lease liabilities to affiliated companies		535 938	-
Deferred income	29	22 069 599	19 505 656
Total short-term liabilities		**92 337 892**	**100 139 018**
Total liabilities		**525 527 582**	**558 754 089**
Total equity and liabilities		**844 366 562**	**877 560 639**

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

Riga, 23 April 2020

Chairman of the Board	M. Kleinbergs
Member of the Board	A. Lubāns
Member of the Board	Ē. Šmuksts

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Deputy Chief Financial Officer, Head of Finance Department — S.Gasjūna

STATEMENT OF CHANGES IN EQUITY

(EUR)

	SHARE CAPITAL	RESERVE	PRIOR YEAR RETAINED EARNINGS	RETAINED EARNINGS FOR THE REPORTING YEAR	TOTAL EQUITY
			For 2018		
At 01.01.2018	**256 720 375**	**11 725 503**	**23 613 416**	**23 184 367**	**315 243 661**
2017 profit transferred to prior year retained earnings	-	-	23 184 367	(23 184 367)	-
Profit included in reserves	-	22 569 492	(22 569 492)	-	-
Payments for the use of the State capital from the profit of 2017	-	-	(614 875)	-	(614 875)
Profit for the reporting year	-	-	-	4 177 764	4 177 764
At 31.12.2018	**256 720 375**	**34 294 995**	**23 613 416**	**4 177 764**	**318 806 550**
			For 2019		
At 01.01.2019	**256 720 375**	**34 294 995**	**23 613 416**	**4 177 764**	**318 806 550**
2018 profit transferred to prior year retained earnings	-	-	4 177 764	(4 177 764)	-
Profit for the reporting year	-	-	-	32 430	32 430
At 31.12.2019	**256 720 375**	**34 294 995**	**27 791 180**	**32 430**	**318 838 980**

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

Riga, 23 April 2020

Chairman of the Board M. Kleinbergs

Member of the Board A. Lubāns

Member of the Board Ē. Šmuksts

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Deputy Chief Financial Officer, Head of Finance Department S.Gasjūna

STATEMENT OF CASH FLOWS
FOR 2019 (PREPARED, USING THE INDIRECT METHOD)

(EUR)

	NOTE	2019	2018
Cash flow from operating activities			
Profit before corporate income tax		**32 430**	**4 177 764**
Adjustments:			
Depreciation of PPE and other impairment adjustments		31 147 909	27 207 694
Amortisation of intangible assets and other impairment adjustments	15	540 987	553 045
Provisions created	26	(1 638 028)	(3 476 199)
Loss on foreign exchange rate fluctuations	8	1 105	24 246
Income from participating interests in associated companies and other corporations	9; 10	(14 815 799)	(1 342 994)
Other interest and similar income	11	(600 237)	(653 213)
Impairment adjustments for long term financial investments		-	12 328 137
Interest and similar payments	11	2 237 934	2 164 478
Profit before adjustments for the effects of changes in current assets and liabilities		**16 906 301**	**40 982 958**
Adjustments:			
Decrease/(increase) in deferred expenses and receivables		3 993 872	(2 826 596)
Increase in inventories		(4 689 278)	(410 794)
(Decrease)/Increase in trade and other payables		(14 597 940)	3 078 779
Gross cash flow from operating activity		**1 612 955**	**40 824 347**
Interest paid		(2 256 940)	(2 183 542)
Corporate income tax expense	12	(30 000)	(71 411)
Net cash flow from operating activity		***(673 985)***	***38 569 394***
Cash flow from investing activity			
Acquisition of PPE and intangible assets		(24 478 884)	(29 541 403)
Proceeds from the sale of fixed assets and intangible assets		55 799	12 925 382
Subsidies, grants, gifts or donations received		4 675 765	-
Loans issued		-	(7 774 245)
Revenue from loan repayments		4 323 745	5 941 807
Interest received		620 964	683 397
Dividends received		15 107 675	1 051 117
Net cash flow from investing activity		***305 064***	***(16 713 945)***

(continued on the next page)

STATEMENT OF CASH FLOWS FOR 2019 (CONTINUED)

(EUR)

	NOTE	2019	2018
Cash flow from financing activities			
Borrowings received		23 778 000	24 965 917
Subsidies, grants, gifts or donations received		-	2 000 000
Expense for repayment of borrowings		(34 695 612)	(33 109 177)
Expense for the lease of the buyout of a fixed asset		(2 082 842)	-
Dividends disbursed		-	(614 875)
Net cash flow from financing activity		***(13 000 454)***	***(6 758 135)***
FX gain/loss		**(27)**	**(1 090)**
Increase/decrease in cash and cash equivalents during the reporting year		**(13 369 402)**	**15 096 224**
Cash and cash equivalents at the beginning of the reporting year		34 797 659	19 701 435
Cash and cash equivalents at the end of the reporting year	**23**	**21 428 257**	**34 797 659**

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

Riga, 23 April 2020

Chairman of the Board M. Kleinbergs

Member of the Board A. Lubāns

Member of the Board Ē. Šmuksts

The financial statements have been prepared by the Finance Directorate of VAS "Latvijas dzelzceļš":

Deputy Chief Financial Officer, Head of Finance Department S.Gasjūna

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE COMPANY

Name of the Company	LATVIJAS DZELZCEĻŠ
Legal status of the Company	State joint stock company
Registered office	Gogoļa iela 3, Riga, LV-1050
Uniform registration number	40003032065
Registration date in the Register of Enterprises	01.10.1991.
Date of registration in the Commercial Register	10.09.2004.
Place of registration	Riga
Date of issue of the merchant's registration certificate	10.09.2014.
Type of main activity (NACE 2. red.)	42.12 Dzelzceļu un metro būvniecība 52.21 Sauszemes transporta palīgdarbības
Shareholder	Republic of Latvia (100%)
Shareholder's representative	The Ministry of Transport of the Republic of Latvia Gogoļa iela 3, Riga, LV-1743
Supervisory body	Company Council
Council	Jānis LANGE – chairman of the Council from 02.02.2018 Aigars LAIZĀNS – member of the Council from 02.02.2018 Andris MALDUPS – member of the Council from 02.02.2018 Andris LIEPIŅŠ, member of the Council from 07.06.2019 Reinis CEPLIS, member of the Council from 07.06.2019
Board	Māris KLEINBERGS, Chairman of the Board from 12.08.2019 Edvīns BĒRZIŅŠ, Chairman of the Board until 11.08.2019 Andris LUBĀNS, member of the Board from 12.08.2019 to 01.06.2020 Aivars STRAKŠAS, member of the Board until 11.08.2019 Ēriks ŠMUKSTS, member of the Board (appointed for a new term of office on 02.12.2017) Ainis STŪRMANIS, member of the Board from 18.07.2016 to 13.03.2020 Vita BALODE – ANDRŪSA, member of the Board from 01.06.2020
Auditors	SIA "PricewaterhouseCoopers" uniform reg. No. 40003142793 Certified auditor commercial company licence No. 5 Kr.Valdemāra iela 21-21 Riga, LV-1010 Latvia Sworn auditor in charge Terēze Labzova-Ceicāne Certificate No. 184
Reporting year	1 January 2019 to 31 December 2019

2. ACCOUNTING AND MEASUREMENT PRINCIPLES

The financial statements reflect the financial position of *Latvijas dzelzceļš* as a separate company. The financial position of *the Group* (State Joint Stock Company Latvijas dzelzceļš and its subsidiaries) is reflected in the consolidated financial statements.

The financial report covers the period from January 1, 2019 to December 31, 2019. The financial statements were approved for issue by the Board of *the Company* on 23 April 2020. The financial statements are approved by the shareholders' meeting convened by the Board of *Latvijas dzelzceļš* after receipt of the auditor's opinion and the report of the Council.

2.1. ACCOUNTING AND MEASUREMENT PRINCIPLES

These financial statements have been prepared in accordance with the IFRS as adopted in the EU. Due to the EU approval process, these notes also include standards and interpretations that have not been approved for application in the EU, as these standards and interpretations may have an impact on *the Company's* financial statements in future periods if approved.

The financial statements have been prepared based on historical cost method and on a going concern basis.

International Financial Reporting Standards require *the Company's* management to use certain estimates and assumptions in preparing financial statements that affect the values of assets and liabilities, disclosures at the reporting date and the amounts of income and expenses recognized during the reporting period. Actual results may differ from these estimates. Apart from mentioned below, there are no other areas that would require significant or complex assumptions or areas where the assumptions and estimates made would be significant in the context of the financial statements:

IFRS 16 "Leases" came into force in the reporting year and its implementation had an impact on *the Company's* operations:

- The new standard sets out the principles for recognition, measurement and disclosure of leases. All leases result in the lessee obtaining the right to use the asset and, if the lease payments are made over time, also include a financing component. Accordingly, IFRS 16 precludes the classification of leases as operating or finance leases as defined in IAS 17. Instead, IFRS 16 introduces a single accounting model for lessees. The lessee recognises in its accounting: (a) assets and liabilities arising from all leases with a term of more than 12 months, except for low value asset leases; and (b) the depreciation charge for leased assets, separately from interest on the lease liability. The accounting for lessors under IFRS 16 is to a large extent similar to the requirements laid down in IAS 17. Accordingly, lessors continue to classify leases as operating or finance leases, and maintain different accounting treatment based on the classification;
- *The Company* has been applying the standard from 1 January 2019, by applying the simplified approach provided for in the transition rules IFRS 16. As a result, comparative figures are not restated, and the initial value of the right to use assets corresponds to the initial value of the lease liability (adjusted for prepayments or other accrued charges, where appropriate);
- In determining the lease term, management takes into account all facts and circumstances that give an economic incentive to use the option to extend the lease or not to exercise the option to terminate the lease. The option to extend the lease (or periods after the lease expires) is included in the lease if there is reasonable assurance that the lease will be extended (or not terminated). The measurement is reviewed for any material event or material change in circumstances that affects the valuation and is within the lessee's control;

Other amendments to IFRSs and their interpretations also entered into force during the reporting period, however, they did not have a significant impact on *the Company's* operations.

The Company's management has assessed the impact of other standards and interpretations that will become effective on 1 January 2020 and does not expect their material effect on *the Company's* financial statements.

2.2. FOREIGN CURRENCY REVALUATION

Functional and presentation currency

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

Foreign currency transactions and balances

All transactions denominated in foreign currencies are converted into *euro* at the exchange rate set by the European Central Bank prevailing on the day the transactions took place. Monetary assets and liabilities denominated in foreign currencies are translated into *euro* at the rate set by the European Central Bank ruling at the end of the last day of the reporting year.

Foreign currency gain or loss is recognised in the profit or loss.

Foreign exchange rates

CURRENCY EXCHANGE RATE	EUR 31.12.2019.	EUR 31.12.2018.
USD	1.12340	1.14500
CHF	1.08540	1.12690
RUB	69.95630	79.71530

2.3. INTANGIBLE ASSETS

Intangible assets primarily consist of software licences initially recognised at cost. Estimated useful life for each type of intangible assets is specific and finite. Intangible assets are presented at cost, net of accumulated amortisation and accumulated impairment losses.

Subsequent costs are capitalised by increasing the existing value of an intangible asset, or recognised as a separate intangible asset only if *the Company* expects that future economic benefits will flow to *the Company* and these costs can be measured reliably. Other expenses are charged to the profit or loss when incurred.

Intangible assets are amortised using the straight-line method to write down their cost over their estimated useful lives and are charged to the profit or loss for the relevant period. Generally, intangible assets are amortised over five years.

2.4. PLANT, PROPERTY AND EQUIPMENT

Property, plant and equipment are measured at cost amounts, as described below, less accumulated depreciation and accumulated impairment provisions, if necessary.

Acquisition costs include costs that are directly attributable to the acquisition of the asset. The value of self-constructed property, plant and equipment consists of the cost of materials and direct labor, as well as any other costs directly attributable to bringing the property to working condition for its intended purpose and demolition and removal costs. The cost of computer software that is closely related to the functionality of the equipment and cannot be separated from it is capitalized as part of the equipment.

The Company capitalises such property, plant and equipment items, the value of which exceeds EUR 300 and the useful life whereof exceeds one year. Investments in the leased assets are capitalised and presented as property, plant and equipment.

If the useful lives of individual property, plant and equipment items are different, they are listed as separate components of fixed assets. The estimated residual value of property, plant and equipment and useful lives are reviewed, and adjusted if appropriate, at the reporting date of each year.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to *the Company* and the cost of the item can be measured reliably. Other subsequent costs are charged to the profit or loss when incurred.

Profit or loss on disposal of fixed assets are calculated as the difference between the asset's book value and sales revenue in the period concerned and included in the profit or loss.

When the book value of a property, plant and equipment item is higher than its recoverable value, the value of the relevant property, plant and equipment item is written down to its recoverable value (see Note 3).

Depreciation

Depreciation of property, plant and equipment is calculated on a straight-line basis. Depreciation is charged to the profit or loss.

Depreciation of leasehold improvements is calculated over the shorter of the assets estimated useful life or the lease term depending on the asset category into which leasehold improvement is falling into. Land is not depreciated.

Depreciation of *the Company's* property, plant and equipment is calculated for each class of assets using their residual values by applying the depreciation rates specified for each asset.

PROPERTY, PLANT AND EQUIPMENT	USEFULE LIFE
Buildings and structures	10-130 years
Long-term plantings	40 years
Railway rolling stock-carriages for technological needs and freight transportation	22-40 years
Railway rolling stock-locomotives, diesel-powered trains, and technological equipment	5-40 years
Railtrack machines	30 years
Computers, communication means, copiers and the fittings thereof	3-10 years
Other property, plant and equipment	5-28 years

Assets under construction

Such assets, which are not ready for their intended use or which are being installed are classified as "Fixed assets under construction". Historical cost of assets under construction includes borrowing costs incurred during the period of construction, and other direct expenditures, related to the relevant object until putting it into operation. The historical cost of the relevant fixed asset is not increased by the borrowing costs in the periods, in which no active construction works of an asset under construction take place.

When assets have reached their working condition for their intended use, they are reclassified to an appropriate class of property, plant and equipment and their depreciation is started to be calculated. Assets under construction are reviewed for impairment on a regular basis.

2.5. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

All of *the Company's* tangible and intangible assets (other than land and the museum inventories) have a definite useful life. Depreciable assets are reviewed for impairment whenever any events and circumstances indicate that their book value may not be recoverable.

An impairment loss is recognised in the amount equal to the difference between the book value of the asset and its recoverable amount. Recoverable amount is the higher of the relevant asset's fair value less selling costs of disposal and its value in use. To determine the impairment, the assets are grouped at the lowest level, for which there is an identifiable cash flow (cash generating units). Impairment losses are charged to the profit or loss.

Asset impairment losses that have been recognised in previous periods, are reviewed at each balance sheet date to determine whether or not there is evidence that the impairment has decreased or no longer exists. Impairment losses are reversed, if changes are made to the estimates used to determine the recoverable amount. Impairment losses are reversed only to the extent the book value of the relevant asset does not exceed their book value less depreciation that would have been determined had impairment losses not been recognised.

2.6. FINANCIAL INSTRUMENTS

Classification of financial instruments

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

The classification of debt instruments depends on *the Company's* financial assets management business model in place, as well as whether the contractual cash flows consist solely of Payments of Principal and Interest (SPPI). If a debt instrument is being held to collect cash flows, it can be carried at amortised cost, if it meets the SPPI requirements. Financial assets the cash flows of which do not meet the SPPI requirements, must be measured at FVTPL (such as derivative financial instruments). Embedded derivatives are not separated from financial assets, but they are included under financial assets, subject to the evaluation of the SPPI requirements.

Equity instruments are always measured at fair value. However, the Management may make an irrevocable choice to charge the change in fair value in other income, unless the instrument is held for trading. If an equity instrument is held for trading, changes in fair value must be reported in the profit or loss.

Recognition and derecognition

Financial assets are recognised when *the Company* has become a contracting party and has fulfilled the terms of the transaction, i.e. at the date of the trade.

Financial assets are derecognised when *the Company's* contractual obligations to the cash flows generated by financial assets are terminated or *the Company* transfers the financial asset to another party, or upon transferring the main risks and rewards incidental to the asset. The acquisition and sales of financial asset in the ordinary course of business are accounted for at the date of trading, i.e., at the date when *the Company* makes the decision to buy or sell assets.

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

Measurement

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

Financial assets at fair value through profit or loss

This category includes *the Company's* equity instruments that make up Other securities and investments. These investments are carried under Long-term assets unless the Management intends to sell them within 12 months from the reporting year date. The fair value of these financial assets is determined based on *the Company's* Management's estimates, made based on the financial information of these investments. Changes in fair value are recognised in the income statement.

Dividends on investments are recognised in the income statement when the legal right to do so arises for *the Company*.

Financial assets at amortised cost

Financial assets at amortised cost are debt instruments with fixed or determinable payments, which are not held for trading and the future cash flows from which consist solely of principal and interest payments. Financial assets at amortised cost include Trade and other receivables, Debts of affiliated companies and Cash and cash equivalents. Financial assets at amortised cost are classified as short-term assets, if the term to maturity is one year or less. If the maturity term is longer than one year, then they are shown as long-term assets. Short-term receivables are not discounted.

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on current accounts and short-term deposits with original maturity of up to 90 days, and short-term highly liquid investments that can be easily converted into cash and are not subject to a substantial risk of changes in value.

Impairment of financial assets at amortised cost

Impairment is recognised in accordance with the expected credit loss (ECL) model. The model is a three-stage approach, based on changes in the credit quality of financial assets, compared with that at the initial recognition. At the initial recognition of a financial asset *the Company* recognises immediate losses, which equal to 12-months ECL, even if the financial assets have no impairment signs (for trade receivables it is measured as lifetime ECL). In the event of a significant increase in credit risk, impairment is measured using the asset's life-long ECL rather than the 12-month ECL. The model includes operational reliefs for trade receivables.

The Company has applied operational simplifications permitted by IFRS 9 in relation to the measurement of trade receivables - trade receivables are grouped by reference to the credit quality thereof and days outstanding, applying the ECL percentage to each relevant group. The ECL rates are estimated, taking into account the last three years of payment history, adjusting the indicator taking into account the present information as well as future prospects.

Related party receivables, as well as loans issued to related parties are included in a separate category, the ECL of which is calculated taking into account not only the past experience, but also the ultimate beneficiary thereof (the Republic of Latvia) credit rating and future development prospects. Loans issued to subsidiaries are regarded as assets with such credit risk, which has not significantly increased since initial recognition, therefore the ECL calculation includes the credit losses expected within the next 12 months.

A provision for impairment is accounted for in a separate provision account and losses are recognised in the profit or loss. If in the period following the recognition of the impairment the loss amount decreases and the amount of such reduction can be objectively related to an event after the recognition of the impairment (for example, improving of the debtor's credit rating), the reversal of the previously recognised impairment losses is recognised in the profit or loss.

Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise Borrowings from credit institutions, Other borrowings, Trade payables and Other payables, as well as Payables to affiliated companies.

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

Borrowings

Borrowings are initially recognised at fair value, net of the costs related to the receiving of borrowings. Subsequently borrowings are measured at amortised cost using the effective interest rate method. The difference between the amount of funds received, less borrowing related costs and loan amortization value is gradually charged to profit or loss using the effective interest rate on the loan. This difference is recognised under financial costs.

Borrowings are classified as current liabilities, except, if *the Company* has the irrevocable right to defer the settlement for at least 12 months after the balance sheet date.

Offsetting financial assets and liabilities

Financial assets and liabilities are mutually offset and reported in the balance sheet at net value if there are legal rights to carry out such offsetting, and the settlement shall occur at net values or transferring the asset and paying for the liability simultaneously.

2.7. INVENTORIES

Items are stated at the lower of cost or net realisable value. Net realisable value represents the selling price of inventories in the normal course of business, less cost to complete and sell. The acquisition cost is determined using the weighted average inventories measurement method for diesel and fuel, and the FIFO (first in, first out) method for other inventory items.

If necessary, provisions for impairment loss are created for obsolete, slow-moving or damaged inventories. For inventories that have not been used for more than a year, a 100% provision is made. The amount of provisions is charged to profit or loss.

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

The share capital of *the Company* consists of common name shares. All of *the Company's* shares are dematerialised shares. The nominal value per share is one *euro*.

The dividends disbursable to *the Company's* shareholder, i.e., payments for the use of the State capital are presented as liabilities in *the Company's* financial statements in the period where *the Company's* parent company approves the amount of the dividends.

2.9. OTHER RESERVES

After the approval of each annual report, the shareholder's general meeting shall decide on the distribution of the profit for the year. Some part of *the Company's* after-tax profit, based on the decision of *the Company's* shareholder's meeting, may be credited to the reserve capital. For this purpose, equity comprises "Other reserves". The use and distribution of other reserves lies within the competence of the shareholder's meeting.

2.10. ACCRUALS FOR UNUSED ANNUAL LEAVES

Unused annual leave accruals are calculated by multiplying the number of unused leave days outstanding at the end of the year with the average daily wage for the last six months plus the employer's share of social insurance contributions.

2.11. PROVISIONS

Provisions are recognised when *the Company* has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount of liabilities may be reliably estimated.

When *the Company* expects some or all of the provision to be reversed, the reversal shall be recognised as a separate asset only when it is practically clear that these expenses will be recovery. Expenses related to the creation of provisions are charged to profit or loss, net of the recovered amounts.

2.12. CORPORATE INCOME TAX FOR THE REPORTING YEAR

Corporate income tax is calculated in accordance with the tax legislation in force at the end of the reporting period. According to the effective law, the tax is charged at the rate of 20 percent of the estimated taxable base which has been adjusted prior to the application of the tax rate, and the is divided by the factor of 0.8. Corporate income tax calculated on the distribution of profit in dividends is recognised in the income statement and, in other cases, under other operating expenses.

2.13. INCOME RECOGNITION

Revenue is the remuneration received in the course of carrying out the operating activities. Revenue is measured at the transaction price set forth in the agreement. The transaction price is the amount that *the Company* expects to receive after transferring the control over goods or services, other than the amounts collected on behalf of third-parties (e.g. value added tax). The transaction price is reduced by the received discounts or other bonuses granted to the buyer. Specific criteria for the recognition of *the Company's* revenue by type of revenue are listed below.

The Company has no customer contracts with a settlement period of more than one year, therefore *the Company* does not make any adjustments to reflect changes in the value of money over time. In addition, settlements do not provide for variable consideration.

Revenue from sales of goods is recognised at the time of transferring control, i.e., at the time when *the Company* transfers the goods to the customer and the latter accepts them, and it is probable that the receivable is recoverable.

Revenue from provision of services is recognised in the financial period when the services were provided, taking into consideration the total service provided and total contractual service, if applicable.

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

- **Public railway infrastructure use services** – ensuring access to the railway infrastructure, provided by the infrastructure manager to all carriers without discrimination. In the first half of 2019, revenue from the use of railway infrastructure services was calculated pursuant to the actually run train-kilometres and recognised in the reporting period in which the train traffic occurred, applying the charge for the use of the public use railway infrastructure carriage train kilometres determined by AS "LatRailNet", the manager of key functions of the public use railway infrastructure, per train kilometre. On 1 July 2019, a new charge calculation procedure for the use of the public use railway infrastructure managed by *Latvijas dzelzceļš* came into force, under which *Latvijas dzelzceļš* provides a public access railway minimum access service for accessing the public railway infrastructure connecting the railway infrastructure with service locations (minimum access service package) and service site maintenance. Minimum access package services are provided as of 1 July 2019 under the Commission Implementing Regulation (EU) 2015/909 of 12 June 2015 on the procedure for calculating the costs directly incurred in providing rail transport services. Taking into account the changes in the charging for the minimum access service package on 1st of June 2019, The Ministry of Transport has ordered the transfer of the grant to *Latvijas dzelzceļš* to ensure the financial balance to the public railway infrastructure manager. The amount received (excluding of VAT) is recognized as income for the period in which the services are rendered, up to the amount of the funding received.
- **Service location maintenance services -** services related to the maintenance of passenger stations and stops. Until 1 July 2019, AS "Pasažieru vilciens" covered the full amount of the charge for the use of the infrastructure. Revenue was recognised in the period in which the services were rendered. In view of the changes in the setting of the fee for the minimum access service package, which came into force on 01.07.2019, the Ministry of Transport issued an order to transfer a grant to *Latvijas dzelzceļš* for the maintenance and renewal of service locations (passenger stations and stops). The amount of the grant received is recognised as revenue for the period during which the services are provided, however, not more than the amount of the funding received.
- **Additional services of the infrastructure manager** - handling of freight train compositions by means of or without forming trains, maintenance and inspection of wagons. Revenue is recognised in the period in which the services are rendered.
- **Lease services –** *the Company* leases out buildings, constructions, land and other property, plant and equipment items that are not needed for its business activity, primarily to other carriers and other companies and organizations related to the operations of the railway infrastructure. Leasing of the unused space located in the railway infrastructure objects reduces the cost of the provision of principal services. As a result, the competitiveness of the principal services improves, as does the efficiency of the object usage. Revenue is recognised in the period when the services are provided. Revenue is recognised in the period in which the services are rendered.
- **Electricity sale services –** electricity distribution and sales services to individuals and legal entities as well as the dependent subsidiaries, and purchasing of electrical power for the electrical traction of passenger trains. Power distribution (traction substations and contact network) needed for a passenger rail traction purpose is included in the cost of infrastructure and is excluded from electricity distribution services. *Latvijas dzelzceļš* provides electricity sales services to electricity consumers fulfilling its obligations laid down by the *Electricity Market Law*, the *Law on Regulators of Public Services* and Rulings of the Cabinet No. 50 *Rules on Selling and Use of Electricity*. Latvijas dzelzceļš acts as the principal provider of services, thus revenue and related costs are recognised on a gross basis. Revenue is calculated as a function of the rates and actual kilowatt hours used during the period when consumed.
- **Principal's services -** include transit clearance in the border stations, transit declaration in the base stations, temporary storage. Revenue is recognised in the period in which the services are rendered.

- **Electronic communications services** – data and electronic message transmission services, leased line services, services of access points to the electronic infrastructure. Revenue is recognised based on the actual usage of network capacity during respective reporting period.
- **Information technology services** – include services that are related to the information systems of freight and passenger transport, train traffic, as well as business support, control and management information systems. Revenue is recognised in the period in which the services are rendered.
- **Other services** – these services include management services for dependent companies, sales of self-produced heat, management services and various other small-scale services for corporate clients and individuals. Revenue is recognized in the period in which the services are rendered.

Interest income

Interest income is recognised on an accruals basis, using the effective interest rate. Interest income from cash and cash equivalents is classified as financial income.

Income from fines

Under the prudence principle, contractual fines, including late payment duty for the liabilities past the due date are recognised in revenue only after the receipt thereof.

Dividend income

Dividend income is recognised when legal rights arise.

2.14. LEASE AGREEMENTS

Lease

As of 1 January 2019, *the Company* applies IFRS 16. Under the transitional provisions of IFRS 16, the standard has been implemented retrospectively, recognising its cumulative effect at 1 January 2019. The comparatives have not been restated. See detailed information in Note 2.15.

Classification

At entering into the contract, *the Company* ascertains whether the contract is a lease or includes a lease. A contract is a lease, or contains a lease, where the contract gives the right to control the use of an identifiable asset for a specified period of time in exchange for consideration. In order to assess whether the contract is a lease or includes a lease, *the Company* evaluates whether:

- The contract provides for the use of an identifiable asset - an asset may be designated, directly or indirectly, and must be physically separable or represent the total capacity of the asset from the physically separable asset. If the supplier has substantial rights to replace the asset, the asset is not identifiable;
- *The Company* may get all economic benefits from the use of the identifiable asset throughout its life;
- T*he Company* has the right to determine the use of the identifiable asset. *The Company* has the right to determine the type of use when it can decide on how and for what purpose the asset will be used. In cases where appropriate decisions have been made in advance as to how and for what purpose the asset will be used, *the Company* must ascertain whether it has the right to dispose of the asset or designate that the asset should be used in a particular manner, or whether *the Company* intends to use the asset in the manner which determines in advance as to how and for what purpose the asset must be will be used.

In the initial valuation or, in the case of a revaluation of a contract that contains a lease component or several lease components, *the Company* shall attribute each relative value of the lease components to each of them.

Lessee

A lease is recognised as a right-of-use the asset and a corresponding lease liability at the date when the leased asset is available for use by *the Company*. The costs of the right-of-use asset consist of:

- initial measurement of the lease liabilities;
- any lease payments made on or before the start date less any lease promotion payments received;
- any initial direct costs.

The right-of-use asset is amortised on a straight-line basis from the inception date to the end of the useful life of the underlying asset. Depreciation is calculated on a straight-line basis from the date of commencement of the lease until the end of the lease term, unless there are plans to redeem the asset. The right to use the asset is periodically reduced by impairment losses, if any, and adjusted for any revaluation of the lease liability.

Assets and liabilities arising from leases are initially measured at their present value at the present value of the remaining lease payments, discounted using the comparative interest rate of *the Company*. Lease liabilities include the present value of the following lease payments:

- fixed lease payments (including, by substance, fixed lease payments) less lease incentives;
- variable rent payments that are dependent on an index or rate;
- payments due by the lessee under the residual value guarantees;
- the exercise price of the call option where there is sufficient reason to believe that the lessee will exercise this option, and
- penalties for termination of the lease where the term of the lease reflects the use of the option by the lessee to terminate the lease.

Lease liabilities are re-measured if there is a change in the future lease payments due to changes in the index or rate used to determine these payments, when the estimated made by *the Company* of the expected amount of payments changes, or when *the Company* changes its assessment of the exercising of the call option, extension or termination of the lease term. When a lease liability is measured repeatedly, the corresponding adjustment is made to the carrying amount of the right-of-use asset or recognised in the income statement if the carrying amount of the right-of-use asset decreases to zero.

Each lease payment is divided between the lease liability and the interest expense on the lease liability. Interest expense on lease liabilities is recognised in the income statement over the lease term to form a constant periodic rate of interest on the remaining lease liability for each period.

Short-term lease and lease where the underlying asset is a low-value asset

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

Accounting for sublease transactions (*the Company* is the lessor)

If, in accordance with the agreement, *the Company* is the lessor, but part of the lease objects is leased out, this transaction is a sublease. Each sublease is assessed for compliance with the definition of a finance lease or an operating lease in relation to the right to use the asset. Accounting is performed in accordance with the specified type of sublease - *the Company* is a lessor on the terms of an operating lease or *the Company* is a lessor on a finance lease terms. If the sublease is a finance lease, it is accounted for separately as a lease receivable. Net offsetting is not performed.

Accounting for sublease transactions:

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

Accounting policy for leases applied until 31 December 2018

Operating lease (*the Company* is the lessor)

Leases in which the lessor retains a substantial share of the risks and rewards incidental of ownership are classified as operating leases. Lease payments and prepayments for leases (less any financial incentives received from the lessor) are charged off to the income statement on a straight-line basis over the lease term.

Finance lease

Until 31 December 2018, when *the Company* was the lessee in an lease, *the Company* took over substantially all the risks and rewards incidental to ownership, and the leased assets were capitalised as property, plant and equipment items or intangible assets at the lower of fair value or minimum lease payments on the lease inception date. Each lease payment is apportioned between the liability component and the finance charge so as to achieve a constant rate of interest on the remaining balance of the liability. The remaining lease liabilities less future finance costs are included in the lease liability. Lease payments are charged off to the income statement over the term of the lease using the effective interest rate. Assets acquired under finance leases are depreciated over the term of the lease or the shorter term if *the Company* was not certain that it will assume ownership at the end of the lease term.

2.15. FIRST-TIME APPLICATION OF IFRS 16 IN THE REPORTING YEAR

The first application of the Standards is primarily due to the following significant effects: the increase in total assets related to the capitalisation of the rights to use assets and the recognition of the respective lease liabilities. Reclassifications and adjustments (restatements) related to the transition to the new standards are detailed below.

At the date of application of IFRS 16, *the Company* recognised lease liabilities that were previously classified as operating leases under IAS 17. *The Company* has opted not to apply the IFRS 16 standard to contracts that have not previously been designated as leases in application of IAS 17 and IFRIC 4 "IFRIC 4 — Determining Whether an Arrangement Contains a Lease". *The Company* has previously classified leases as operating or finance leases based on an estimate of whether it takes over all the risks and rewards incidental to ownership of the asset. Under IFRS 16, lease liabilities are measured at the present value of the remaining lease payments, discounted at the lessee's interest rate at 1 January 2019.

Each lease payment is divided between the lease liability and the interest expense on the lease liability. Interest expense on lease liabilities is recognised in the income statement over the lease term to form a constant periodic rate of interest on the remaining lease liability for each period. The right to use asset is amortized on a straight-line basis from the inception date to the end of the useful life of the underlying asset.

The Company has concluded a number of lease contracts for premises, mainly for the lease of office space, vehicles and other assets. As at 31 December 2018, the approximate amount of one month's rent to *the Company* was EUR 340 882. *The Company* has used a discount rate of 1,21% - 3%, depending on the rate specified in the lease agreement or *the Company's* average borrowing rate. The total undiscounted lease liabilities of *the Company* on 1 January 2019 amounted to EUR 11 924 752, including EUR 9 604 181 which were previously recorded as operating lease and financial lease of EUR 2 320 571.

The right-of-use asset is measured at the amount of the lease liability and adjusted for any prepayments of the lease payments. *The Company* has evaluated the lease term liabilities and included in the calculations the payments that will have to be made during the periods for which extension of the lease option is possible, provided that the lessee is sufficiently certain that the lease extension option can and will be exercised, or is reasonably certain that it will not be forced or will not voluntarily terminate its existing lease agreement. Lease contracts are usually for a fixed term of 1 to 15 years but may include options to extend the lease term. In determining the lease term, Management takes into account facts and circumstances that may affect the lease term. The assessment is reviewed in the event of any material event or material change in circumstances that lies within the lessee's control.

At 1 January 2019, *the Company* recognised the rights-of-use assets in the amount of EUR 11 699 277, including EUR 9 281 848 which were previously accounted for as operating lease costs and EUR 2 417 429 reclassified from leased fixed assets. Also *the Company* has recognized lease liabilities of EUR 11 602 419, including EUR 9 281 848 which were previously accounted for as operating lease and EUR 2 320 571 which were reclassified from other borrowings (finance lease liability). Each lease payment is allocated between the lease liability and the finance charge. Finance costs are charged to the income statement over the lease term to arrive at a constant periodic rate of interest on the remaining balance of the liability. The right-of-use asset is depreciated over the lease term on a straight-line basis. In 2019, the amortization of the right-of-use asset for *the Company* amounted to EUR 2 181 356.

Lease liabilities

(EUR)

LEASE LIABILITIES	*COMPANY*
Lease liabilities at 1 January 2019	11 602 419
New agreements during the reporting period (incl. prepayments)	2 606 830
Terminated agreements and amendments to the agreements	(223 619)
Lease costs accounted for in the reporting period	(2 324 546)
Lease interest costs in the reporting period (Note 7)	122 713
Lease liabilities in statement of financial position at 31 December 2019	**11 783 797**
Short-term liabilities (up to 1 year)	2 425 509
Long-term liabilities (from 1 to 5 years)	9 358 288

2.16. STATE BUDGET CO-FINANCING AND EU FINANCING

State budget co-financing and EU financing are recognised at fair value when there is sufficient assurance that they will be received and it can be credibly claimed that *the Company* will be able to fulfil all the terms and conditions related to the receiving of these funds.

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

2.17. RELATED PARTIES

Related parties are the State, the members of the Board and Council of *the Company*, their close relatives, and companies in which they exert significant influence or control.

2.18. EVENTS AFTER THE BALANCE SHEET DATE

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

2.19. EMPLOYEE BENEFITS

Social insurance and pension plan contribution

The Company makes social insurance contributions to the state pension scheme in accordance with Latvian law. The State-funded pension scheme is a fixed contribution pension plan under which *the Company* must make payments at statutory levels. *The Company* will have no additional legal or constructive obligation to make further payments if the state funded pension scheme is unable to settle its liabilities to employees. Social insurance contributions are recognised as an expense under the accrual principle, and are a part of payroll costs. Under the Cabinet Regulation No. 786 "*Regulation on the Breakdown of the Rates of the National Social Insurance Contribution Rates by type of National Social Insurance*" of 19 December 2017, in 2019 same as in 2018, 71.87% of the national social insurance mandatory contributions were paid to finance the State defined contribution pension system.

2.20. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates are stated at cost less impairment losses.

The Company recognizes income only when it receives a share of the post-acquisition profits from its subsidiary or associate. Amounts received in excess of this gain are treated as a recovery of the investment and are recorded as a reduction in the cost of the investment.

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

3. KEY ASSUMPTIONS AND JUDGMENTS

The preparation of the financial statements in accordance with IFRS requires making significant assumptions. It also requires the Management to make its assumptions and judgments, applying the accounting policies selected by *the Company*.

Preparation of the financial statements in accordance with IFRS requires making estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of information at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results might differ from those estimates. The areas that are the most affected by assumptions are the Management's assumptions and calculations, used in determining the recoverable amount of the assets and the amount of provisions, as described below.

Useful life of property, plant and equipment

At the end date of each reporting period, *the Company* reviews the remaining useful life of the asset. Based on the most recent assessment carried out by the Financial Directorate of *the Company*, the current useful life of *the Company's* property, plant and equipment corresponds to the actual useful life of the asset.

Provisions

When assessing the provisions, the Management uses estimates on the likely liabilities as well as the term during which the liabilities might crystallise. If these events do not occur or occur in a different manner, the actual costs may differ from estimated costs. More detailed information on the assumptions regarding the provisions is provided in Note 26.

4. REVENUE

(EUR)

TYPE OF OPERATION	2019	2018
Revenue from customer contracts (15.SFPS):		
Charge for the public use of the railway infrastructure	115 219 899	145 525 701
Ancillary services of the infrastructure manager	33 821 211	40 004 195
Electricity sale services	6 531 328	6 648 198
IT services	4 520 628	4 392 726
Services of a principal	1 536 720	1 746 631
Specific services related to infrastructure maintenance and repairs	756 004	627 406
Electronic communications services	556 308	601 558
Construction services	25 943	25 335
Other services	3 970 906	4 556 967
Other revenue:		
Revenue from maintenance of the railway infrastructure (State budget financing) [1)]	11 648 447	-
Lease services	4 095 770	5 302 279
Revenue from maintenance of crew seats (State budget financing)[1)]	596 737	-
Total	**183 279 901**	**209 430 996**

[1)] In accordance with the order of the Ministry of Transport a grant of EUR 14 817 673 was received for the maintenance of public railway infrastructure and maintenance of service points (passenger stations and stops). From this amount was calculated 21% VAT for EUR 2 571 489.

5. COST OF GOODS SOLD

(EUR)

PRODUCTION COST ELEMENTS OF PRODUCTS SOLD	2019	2018
Payroll costs	73 924 898	74 261 615
National social insurance mandatory contributions	17 719 066	17 811 324
Materials, fuel and oil	10 402 235	10 123 670
Electricity	9 469 196	9 542 722
Depreciation of PPE and amortisation of intangible assets	47 284 947[*1)]	48 070 211
Amortisation of the right to use assets	1 762 931	-
Fee for shunting work	9 106 769	9 148 150
Security services	4 695 676	4 568 282
Information system maintenance costs	2 400 228	3 157 973
Lease costs	1 772 989	2 597 171
Costs of regular repairs of fixed assets and equipment	3 445 728	2 264 183
Utility fee	1 760 617	1 762 926
Payment for locomotive and crew work	1 997 032	1 180 373
Property tax	612 307	593 928
Other expenses	13 898 259[*2)]	15 068 153
Total	**200 252 878**	**200 150 681**

*[*1)] Depreciation of fixed assets and intangible investments includes the parts of the current year depreciation amounts (EUR 19 437 568) of the objects created for co-financing received from the EU funds and the state, which refer to the received financial support, see Note 29.*

*[*2)] Other costs include payment for services provided by the commercial company of swom auditors SIA "PricewaterhouseCoopers":*

	2019	2018
Audit of financial statements	56 750	54 000
Other expert tasks	51 835	12 643

(EUR)

6. ADMINISTRATION COSTS

(EUR)

	2019	2018
Payroll costs	10 527 725	11 062 979
National social insurance mandatory contributions	2 515 000	2 644 199
Materials, fuel and oil, electricity	208 402	200 930
Depreciation of PPE and amortisation of intangible assets	697 179	557 317
Amortisation of the right to use assets	160 558	-
Other expenses	1 963 665	1 463 855
Total	**16 072 529**	**15 929 280**
of which remuneration for the members of the Board and Council of the Company	716 296	604 702
including payroll costs	*577 239*	*487 310*
National social insurance mandatory contributions (employer's contributions)	*139 057*	*117 392*

7. OTHER OPERATING INCOME

(EUR)

	2019	2018
Revenue from sale of inventories	74 767	1 905 936
Revenue from the sale of PPE	35 772	1 541 134
Penalties and late payment fine	160 476	151 196
Social infrastructure revenue	212	363
Gradual recognition of deferred income	19 437 568	19 866 639
Adjustment of other provisions (see Note 26)	3 496 246	3 476 199
Accrued liabilities for annual leaves	171 288	-
State budget grant for damages	74 526	285 795
Funding for project work-based learning	14 751	15 848
Other revenues	520 116	595 789
Total	**23 985 722**	**27 838 899**

8. OTHER OPERATING EXPENSES

(EUR)

	2019	2018
Costs of disposal of property, plant and equipment and unfinished construction	1 097 262	770 256
Foreign exchange rate fluctuations	1 105	24 246
Currency conversion	18 836	19 969
Penalties and late payment fine	3 635	4 168
Social infrastructure maintenance costs	1 737	6 291
Costs provided for in the collective agreement of the Latvijas dzelzceļš Group, etc. *1)	796 303	824 672
Increase in the provisions for bad debts, adjustment (Note 22)	22 367	554 269
Provisions for materials not used longer than a year (Note 21)	33 418	550 651
Provisions for severance pay (Note 26)	1 854 919	-
Adjustment for other provisions (Note 26)	3 299	-
Accrued liabilities for annual leaves	-	1 218 629
Corporate income tax	-	70 437
Other costs	253 007	472 174
Total	**4 085 888**	**4 515 762**

*1) *of which:*

TYPE OF COST	2019	2018
Donations	-	38 960

9. INCOME FROM PARTICIPATION IN SUBSIDIARIES AND ASSOCIATES

(EUR)

	2019	2018
Dividends received from the subsidiaries of *Latvijas dzelzceļš*:	**14 486 030**	**567 354**
SIA "LDZ CARGO"	10 631 078	415 974
SIA "LDZ ritošā sastāva serviss"	2 753 844	34 173
SIA "LDZ Loģistika"	375 985	81 413
SIA "LDZ infrastruktūra"	672 709	25 892
SIA "LDZ apsardze"	46 444	8 619
AS "LatRailNet"	5 970	1 283

10. INCOME FROM PARTICIPATION IN THE SHARE CAPITAL OF OTHER COMPANIES

(EUR)

DIVIDEND INCOME	2019	2018
SIA "STREK"	329 633	775 580
Belarus-Latvia joint company "MIRIGO"	136	60
Total	**329 769**	**775 640**

11. FINANCIAL COSTS, NET

(EUR)

	2019	2018
Financial income	**600 237**	**653 213**
Bank interest	36	379
Other interest income	600 201	652 834
Financial costs	**(2 237 934)**	**(2 164 478)**
Bank interest	(2 115 221)	(2 164 478)
Interest expense in lease transactions	(122 713)	-
Financial costs, net	**(1 637 697)**	**(1 511 265)**

12. CORPORATE INCOME TAX

The Company calculated corporate income tax in accordance with the legislation of the Republic of Latvia.

(EUR)

OVERPAYMENT OF CORPORATE INCOME TAX FOR THE REPORTING YEAR	2019	2018
Overpayment on January 1	**974**	**-**
Calculated for the reporting year	-	(70 437)
Paid in the reporting year	30 000	71 411
Overpayment on December 31	**30 974**	**974**

13. PROPERTY, PLANT AND EQUIPMENT

(EUR)

	LAND PLOTS	BUILDINGS, STRUCTURES AND LONG-TERM PLANTINGS	RAIL TRACKS	LONG-TERM INVESTMENTS IN LEASES PPE	TECHNOLOGICAL EQUIPMENT AND DEVICES	COMPUTERS, COMMUNICATION MEANS, COPIERS AND THE FITTINGS THEREOF	OTHER PROPERTY, PLANT AND EQUIPMENT	COSTS OF UNFINISHED CONSTRUCTION OBJECTS	TOTAL
Cost at 01.01.2019	**830 252**	**201 093 125**	**836 914 680**	**2 548 121**	**310 560 955**	**39 947 024**	**31 347 639**	**3 446 263**	**1 426 688 059**
Acquisition and construction of PPE	25 000	2 929 571	15 175 479	-	1 974 347	3 235 074	1 209 472	(1 466 444)	23 082 499
Reclassified	-	(62 745)	-	(2 417 429)*)	4 212	(2 357)	58 533	-	(2 419 786)
Disposal of property, plant and equipment	-	(120 503)	(3 879 369)	-	(1 583 715)	(436 960)	(509 732)	(18 529)	(6 548 808)
Cost at 31.12.2019.	**855 252**	**203 839 448**	**848 210 790**	**130 692**	**310 955 799**	**42 742 781**	**32 105 912**	**1 961 290**	**1 440 801 964**
Accumulated depreciation at 01.01.2019	-	**113 603 873**	**454 268 789**	**732 169**	**150 198 739**	**30 527 696**	**23 471 041**	-	**772 802 307**
Depreciation charge	-	3 598 335	29 395 500	8 348	10 226 643	3 028 594	1 266 669	-	47 524 089
Reclassified	-	(46)	-	(671 344)*)	4 212	-	(4 166)	-	(671 344)
Depreciation of disposed assets	-	(94 908)	(2 934 127)	-	(1 520 845)	(434 670)	(495 237)	-	(5 479 787)
Accumulated depreciation at 31.12.2019	-	**117 107 254**	**480 730 162**	**69 173**	**158 908 749**	**33 121 620**	**24 238 307**	-	**814 175 265**
NBV at 01.01.2019	**830 252**	**87 489 252**	**382 645 891**	**1 815 952**	**160 362 216**	**9 419 328**	**7 876 598**	**3 446 263**	**653 885 752**
NBV at 31.12.2019	**855 252**	**86 732 194**	**367 480 628**	**61 519**	**152 047 050**	**9 621 161**	**7 867 605**	**1 961 290**	**626 626 699**

*) assets with initial value of EUR 2 417 429 and accumulated depreciation EUR 671 344 as of 01.01.2019 have been reclassified to rights to use assets.

(EUR)

	LAND PLOTS	BUILDINGS, STRUCTURES AND LONG-TERM PLANTINGS	RAIL TRACKS	LONG-TERM INVESTMENTS IN LEASES PPE	TECHNOLOGICAL EQUIPMENT AND DEVICES	COMPUTERS, COMMUNICATION MEANS, COPIERS AND THE FITTINGS THEREOF	OTHER PPE	COSTS OF UNFINISHED CONSTRUCTION OBJECTS	TOTAL
Cost at 01.01.2018	**830 252**	**197 710 956**	**826 059 672**	**2 538 544**	**347 897 854**	**38 358 350**	**30 219 917**	**2 415 614**	**1 446 031 159**
Acquisition and construction of PPE	-	3 625 910	14 534 427	9 577	1 485 946	2 420 448	1 362 035	1 030 649	24 468 992
Reclassified	-	(604)	-	-	(10 530)	-	11 134	-	-
Disposal of PPE	-	(243 137)	(3 679 419)	-	(38 812 315)	(831 774)	(245 447)	-	(43 812 092)
Cost at 31.12.2018.	**830 252**	**201 093 125**	**836 914 680**	**2 548 121**	**310 560 955**	**39 947 024**	**31 347 639**	**3 446 263**	**1 426 688 059**
Accumulated depreciation at 01.01.2018.	-	**110 304 479**	**427 779 481**	**656 256**	**166 672 205**	**28 565 793**	**22 491 066**	-	**756 469 280**
Depreciation charge	-	3 497 099	29 593 972	75 913	10 962 650	2 790 774	1 209 284	-	48 129 692
Reclassified	-	(573)	-	-	(10 534)	-	11 107	-	-
Depreciation of disposed assets	-	(197 132)	(3 104 664)	-	(27 425 582)	(828 871)	(240 416)	-	(31 796 665)
Accumulated depreciation at 31.12.2018.	-	**113 603 873**	**454 268 789**	**732 169**	**150 198 739**	**30 527 696**	**23 471 041**	-	**772 802 307**
NBV at 01.01.2018.	**830 252**	**87 406 477**	**398 280 191**	**1 882 288**	**181 225 649**	**9 792 557**	**7 728 851**	**2 415 614**	**689 561 879**
NBV at 31.12.2018.	**830 252**	**87 489 252**	**382 645 891**	**1 815 952**	**160 362 216**	**9 419 328**	**7 876 598**	**3 446 263**	**653 885 752**

During the whole reporting period and comparative periods, the land registered in the name of the Ministry of Transport was transferred to *the Company's* use. The land's area is15 thousand hectares (mostly it is a railway land division zone, which is a component of the railway public use infrastructure and is intended for the location of railway infrastructure objects in order to ensure the development and safe operation of the railway infrastructure).

The capitalized part of the salary is included in the acquisition costs of fixed assets in the amount of EUR 1 964 529 in 2019 (2018 – EUR 1 741 446). Funds spent on renovation, modernization and acquisition of fixed assets, intangible investments, as well as construction of new facilities in 2019 amounts EUR 24 478 884 (2018 – EUR 29 541 403).

14. RIGHTS-OF-USE ASSETS

(EUR)	RIGHT TO USE LAND PLOTS	RIGHT TO USE BUILDINGS AND STRUCTURES	RIGHT TO USE RAIL TRACKS	RIGHT TO USE TECHNOLOGICAL EQUIPMENT AND DEVICES	RIGHT TO USE COMPUTER EQUIPMENT AND EQUIPMENT, MEANS OF COMMUNICATION, PHOTOCOPIERS AND EQUIPMENT THEREOF	THE RIGHT TO USE OTHER FIXED ASSETS	TOTAL
Cost at 01.01.2019.	-	-	-	-	-	-	-
Impact of IFRS 16 implementation	492 485	3 333 939	2 654 715	1 087 516	1 019 409	693 784	9 281 848
Reclassified	-	2 417 429	-	-	-	-	2 417 429
New leases	-	-	-	1 180 421	-	1 426 409	2 606 830
Amendments to contracts and termination of contracts	217	(131 333)	1 541	(12 346)	-	(139 983)	(281 904)
Cost at 31.12.2019.	**492 702**	**5 620 035**	**2 656 256**	**2 255 591**	**1 019 409**	**1 980 210**	**14 024 203**
Accumulated depreciation at 01.01.2019	-	-	-	-	-	-	-
Estimated depreciation due to the implementation of IFRS 16	82 743	547 108	533 353	494 394	239 861	283 897	2 181 356
Reclassified from property, plant and equipment	-	671 344	-	-	-	-	671 344
Depreciation write-off	-	-	-	-	-	(51 484)	(51 484)
Accumulated depreciation at 31.12.2019	**82 743**	**1 218 452**	**533 353**	**494 394**	**239 861**	**232 413**	**2 801 216**
NBV at 01.01.2019	-	-	-	-	-	-	-
NBV at 31.12.2019	**409 959**	**4 401 583**	**2 122 903**	**1 761 197**	**779 548**	**1 747 797**	**11 222 987**

15. INTANGIBLE ASSETS

(EUR)

LICENCE AND RIGHTS	2019	2018
Historical cost at the beginning of the year	**9 036 174**	**8 402 110**
Acquisitions	672 870	693 060
Reclassified from property, plant and equipment	2 357	2 091
Disposals	(29 071)	(61 087)
Historical cost at the end of the year	**9 682 330**	**9 036 174**
Accrued depreciation at the beginning of the year	**7 612 390**	**7 119 698**
Calculated depreciation	540 987	553 045
Reclassified	-	734
Disposals	(28 681)	(61 087)
Accrued depreciation at the end of the year	**8 124 696**	**7 612 390**
NBV at the beginning of the year	**1 423 784**	**1 282 412**
NBV at the end of the year	**1 557 634**	**1 423 784**

16. PARTICIPATION IN THE CAPITAL OF SUBSIDIARIES

SIA "LDZ CARGO"

Uniform registration number	40003788421
Registered office	Dzirnavu iela 147, k-1, Riga, LV-1050
Shareholding, %	100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year	01.01.2019. – 31.12.2019.

SIA "LDZ ritošā sastāva serviss"

Uniform registration number	40003788351
Registered office	Turgeņeva iela 21, Riga, LV-1050
Shareholding, %	100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year	01.01.2019. – 31.12.2019.

SIA "LDZ infrastruktūra"

Uniform registration number	40003788258
Registered office	Gogoļa iela 3, Riga, LV-1050
Shareholding, %	100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year	01.01.2019. – 31.12.2019.

SIA "LDZ apsardze"

Uniform registration number	40003620112
Registered office	Zasas iela 5-3, Riga, LV-1057
Shareholding, %	100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year	01.01.2019. – 31.12.2019.

AS "LatRailNet"

Uniform registration number	40103361063
Registered office	Dzirnavu iela 16, Riga, LV-1010
Shareholding, %	100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year	01.01.2019. – 31.12.2019.

SIA "LDZ Loģistika"

Uniform registration number	40003988480
Registered office	Dzirnavu iela 147, k-2, Riga, LV-1050
Shareholding, %	100% shareholder - VAS "Latvijas dzelzceļš"
Reporting year	01.01.2019. – 31.12.2019.

The subsidiary of SIA "LDZ ritošā sastāva serviss"
SIA "Rīgas Vagonbūves uzņēmums "Baltija"

Uniform registration number	40103419565
Registered office	Turgeņeva iela 14, Riga, LV-1050
Shareholding, %	100% shareholder - SIA "LDZ ritošā sastāva serviss"
Reporting year	01.01.2019. – 31.12.2019.

17. ACCOUNTING VALUE OF INTERESTS IN SUBSIDIARIES

(EUR)

SUBSIDIARY	LDZ share, %	31.12.2019.	31.12.2018.
SIA "LDZ CARGO"	100	80 492 369	80 492 369
SIA "LDZ ritošā sastāva serviss" *1)	100	29 351 905	29 351 905
SIA "LDZ infrastruktūra"	100	3 605 070	3 605 070
SIA "LDZ apsardze"	100	298 803	298 803
AS "LatRailNet"	100	35 571	35 571
SIA "LDZ Loģistika"	100	638 000	638 000
Total	**x**	**114 421 718**	**114 421 718**

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

In *Latvijas dzelzceļš's* books, the long-term financial investments in the capitals of subsidiaries are valued at their initial acquisition costs, less accumulated impairment losses, if any.

18. INDICATORS OF SUBSIDIARIES IN 2019

(EUR)

SUBSIDIARY	LDZ share, %	PROFIT 2019	PROFIT 2018	EQUITY	
				31.12.2019.	31.12.2018.
SIA "LDZ CARGO"	100	2 785 211	1 957 344	130 263 686	138 109 553
SIA "LDZ ritošā sastāva serviss"	100	729 370	3 128 120	43 533 700	45 558 174
SIA "LDZ infrastruktūra"	100	384 269	156 821	18 069 074	18 357 514
SIA "LDZ apsardze"	100	84 413	59 390	704 766	666 797
AS "LatRailNet"	100	51 745	7 051	133 421	87 646
SIA "LDZ Loģistika"	100	627 118	652 724	1 689 303	1 438 170
Total	**x**	**4 662 126**	**5 961 450**	**194 393 950**	**204 217 854**

Latvijas dzelzceļš Group is engaged in operating the public-use railway infrastructure and providing railway transport services and services related to them. *The Group* consists of *the Group's* parent company – VAS "Latvijas dzelzceļš", SIA "LDZ CARGO", SIA "LDZ ritošā sastāva serviss", SIA "LDZ infrastruktūra", SIA "LDZ apsardze", SIA "LDZ Loģistika", AS "LatRailNet", as well as the subsidiary of SIA "LDZ ritošā sastāva serviss" – SIA Rīgas Vagonbūves uzņēmums "Baltija".

The principal task of *Latvijas dzelzceļš* in terms of *the Group's* governance is to ensure the development of *the Group's* business lines and the competitiveness thereof, by achieving better results than those that could have been achieved if each line of business was operated as a stand-alone entity. To achieve this, a uniform strategy and objectives have been developed for *the Group* to ensure the best allocation of production and investment resources between the lines of business and *the Group's* companies, coordination of the decision-making process and exercising an effective control over its implementation. *Latvijas dzelzceļš* represents *the Group's* interests at international level.

Latvijas dzelzceļš provides the minimum public access rail access services referred to in Section 12.1, Paragraph one of the Railway Law, and access to public railway infrastructure that connects the railway infrastructure with service stations, freight wagon processing, wagon maintenance and inspection services, electricity distribution and trading services, lease services, information technology services, electronic communications services, as well as principal's services.

SIA "LDZ CARGO" is engaged in providing domestic as well as international railway freight transport services, traction services, rolling stock lease services, as well as in organising international passenger transport services.

SIA "LDZ ritošā sastāva serviss" is engaged in providing locomotive and rolling stock repair, locomotive staffing and upgrading services, locomotive rental.

SIA "LDZ infrastruktūra" is engaged in providing rail track machinery repairs and lease as well as providing rail track welding services.

SIA "LDZ apsardze" provides physical and technical security services to the Group as well as to private individuals.

AS "LatRailNet" it develops and approves the infrastructure charges and decides on allocation of railway infrastructure capacity and on scheduling the trains of a particular carrier.

SIA "LDZ Loģistika" is engaged in providing forwarding and logistics services, as well as in attracting new freight flows and promoting railway freight transport between European and Asian countries.

The subsidiary of SIA "LDZ ritošā sastāva serviss" – SIA "Rīgas Vagonbūves uzņēmums Baltija" was established with a view to developing rolling stock manufacturing in Latvia.

19. LOANS TO AFFILIATED COMPANIES

The balance of the long-term loan issued to SIA "LDZ ritošā sastāva serviss" for financing the modernization of diesel locomotives as of 31.12.2019 is EUR 43 637 613; short-term part is EUR 4 323 745.

20. OTHER LONG-TERM FINANCIAL INVESTMENTS

(EUR)

NAME OF THE COMPANY	SHAREHOLDING %	NBV 31.12.2019	NBV 31.12.2018
Belarus - Latvian joint stock company "MIRIGO"	3.0	10 126	10 126
SIA „STREK"	5.84	73 982	73 982
Total		**84 108**	**84 108**

21. INVENTORIES

	31.12.2019.	31.12.2018.
		(EUR)
Road surface materials	11 410 608	7 161 864
Spare parts	326 882	351 431
Other materials	2 014 977	1 848 850
Fuel and oil	231 420	238 748
Other inventories and unfinished production	406 788	79 856
Gross carrying value	**14 390 675**	**9 680 749**
Provisions for materials not used longer than a year	(2 617 809)	(2 584 391)
NBV	**11 772 866**	**7 096 358**

22. TRADE AND OTHER RECEIVABLES

	31.12.2019.	31.12.2018.
		(EUR)
Trade receivables	1 860 284	5 582 073
Doubtful debts	731 017	802 962
Other receivables	1 706 727	1 677 037
Gross carrying value	**4 298 028**	**8 062 072**
Provisions for bad debts	(731 017)	(802 962)
Net book value	**3 567 011**	**7 259 110**

MOVEMENT IN PROVISIONS FOR BAD DEBTS	2019	2018
		(EUR)
Provisions for bad debts at the beginning of the year	802 962	473 698
Reduction of provisions due to the recovery of receivables	(17 705)	(47 004)
Reduction of provisions due to the write-off of receivables	(94 312)	(225 005)
Additional provisions were created	40 072	601 273
Provisions for doubtful debts at the end of the year	**731 017**	**802 962**

Estimate of the expected value of the impairment of receivables by their risk group and days outstanding was made (see detailed information in Note 31). The expected loss rates are based on historical repayment indicators, which are defined as the ratio of bad debts to relevant revenue over the past 36 months (counted either from 31 December 2019 or 1 January 2019). The historical loss ratios were adjusted to disclose the current and anticipated information on macroeconomic factors that affect the ability of customers to make settlements with *the Company*. The GDP forecasts are considered to be the most significant factor because it has the most direct effect on the changes in bad debts.

According to the calculations, at 31 December 2019 and at 1 January 2019, the provisions created for such trade receivables that have not delayed payment terms or have been outstanding for less than 6 months were immaterial, therefore their value in the financial statements is zero.

Similar calculations were also made for related party receivables, loans issued to related parties, other receivables, as well as for cash and cash equivalents, however, these calculations were based not on a historical experience but rather on the default rates of external credit rating agencies for similar borrowers or borrower groups. Such an approach was chosen because *the Company* has no historical data regarding losses for these financial asset groups. The results of the calculations suggest that the credit quality of the said assets is good, therefore the expected credit losses at 31 December 2019 and 1 January 2019 are not significant, therefore their value in the financial statements is zero.

Under *the Company's* accounting policies, usually provisions of 100% for expected credit losses are created for trade receivables that have been outstanding for more than 6 months, making adjustments only to present the potential recovery of such debts.

23. CASH AND CASH EQUIVALENTS

(EUR)

	31.12.2019.	31.12.2018.
Cash at bank	21 426 079	34 794 404
Cash in hand	2 178	2 050
Cash in transit	-	1 205
Total	**21 428 257**	**34 797 659**

24. SHARE CAPITAL

The registered and paid up capital of *the Company*

The share capital of Latvijas dzelzceļš is EUR 256 720 375, consisting of two hundred and fifty-six million seven hundred and twenty thousand three hundred and seventy-five shares, with a nominal value per share of EUR 1 (one *euro*).

The shareholder of all shares is the Republic of Latvia and the shares are fully paid-up. The Ministry of Transport is the sole holder of the state capital shares. All of *the Company's* shares carry the same rights to dividends, liquidation quota and voting rights in the shareholders' meeting.

Payments for the State capital (dividends)

Under Section 94, Paragraph one, Clause 2, Section 56, Paragraph one, Section 28, Paragraphs one and two of the Law on Governance of Capital Shares of a Public Person and Capital, and Paragraph 5 of the Cabinet Regulation No. 806 "Procedure under which State Capital Companies and Public Private Companies in which the State is a Shareholder Budget and Determine the Share of Profits to be Distributed and Make Payments to the State Budget for the Use of State Capital" of 22.12.2015, Latvijas dzelzceļš must calculate and determine the share of the profit to be disbursed in dividends as one per cent of the net profit.

In 2019, the decision on 2018 profit distribution was not made. On 28 January 2020, the Cabinet ruled, under its Order No. 35 "On a different profit share payable in dividends by the State Joint Stock Company Latvijas dzelzceļš for the 2018 reporting year", that Latvijas dzelzceļš is not to pay out dividends from its net profit for 2018, but EUR 2 922 272 of the profit shall be used for the development and renovation of the public joint-stock railway infrastructure of the SJSC Latvijas dzelzceļš, including formation of a reserve, which may be used for the implementation of public railway infrastructure projects planned by the SJSC Latvijas dzelzceļš for the medium-term operational strategy for the period 2017-2022, and EUR 1 255 492 of its profits will be used to finance public-use railway infrastructure in the passenger carriage service segment in 2019.

25. RESERVES AND RETAINED EARNINGS

Reserves consist of retained earnings from previous periods, which by the owner's decision have been transferred to other reserves to ensure the development of the Company. Retained earnings have been adjusted by adjusting the fair value of property, plant and equipment in accordance with IFRS. The procedure for the use of the Company's reserves and retained earnings of previous years is determined by the Company's shareholders' meeting.

26. PROVISIONS

(EUR)

	31.12.2019.	31.12.2018.
Other provisions	126 684	162 078
Total non-current portion	**126 684**	**162 078**
Provisions for public railway infrastructure services	-	3 460 852
Provisions for severance grants	1 854 919	-
Other provisions	3 299	-
Total current portion	**1 858 218**	**3 460 852**
Total	**1 984 902**	**3 622 930**

Movement table of provisions by type of provisions in 2019

(EUR)

	01.01.2019.	INCREASE/DECREASE IN PROVISIONS	31.12.2019.
Provisions for public railway infrastructure services	3 460 852	(3 460 852)	-
Provisions for severance grants	-	1 854 919	1 854 919
Other provisions	162 078	(32 095)	129 983
Total	**3 622 930**	**(1 638 028)**	**1 984 902**

Movement in provisions by type of provisions in 2018

(EUR)

	01.01.2018.	DECREASE IN PROVISIONS	31.12.2018.
Provisions for public railway infrastructure services	6 921 703	(3 460 851)	3 460 852
Other provisions	177 426	(15 348)	162 078
Total	**7 099 129**	**(3 476 199)**	**3 622 930**

In 2019, the provisions of EUR 3 460 852 created for the financing of public-use railway infrastructure were written off, because under the 30 June 2017 Regulation JALP-7.6/01-2017 "Charge calculation scheme"; 30 June 2017 Regulation JALP-7 .6/02-2017 "Charge Collection Scheme" and Decision No.JALP-1 .3/45-2019 "of the Management On the establishment of the average direct costs of the infrastructure unit and the minimum access service package, and on access to the infrastructure connecting to the infrastructure with the service locations and the setting of other associated charges for the period after 1 July 2019" of 17 June 2019, the charges approved by the performer of the essential functions, i.e., AS "LatRailNet", effective from 1 July 2019, do not provide for compensating for the provisions created with revenues from the infrastructure charge.

Provisions for costs of industrial injuries were made in accordance with the Cabinet of Ministers 23.08.2001. Regulations No. 378 "Procedure for Calculation, Financing and Payment of Compensation for Damage Caused at Work". Provisions are calculated on the basis of the actual cost of damages per year, assuming that their cost should be provided for three years. Estimated provisions for costs of industrial injuries have decreased by EUR 35 394.

In December 2019, pursuant to the decisions of the Board on structural changes of the Latvijas dzelzceļš and collective redundancies, calculations were made and a provision for redundancy payments of EUR 1 854 919.

In December 2019, provisions were made for possible losses from litigation in the amount of EUR 3 299.

27. BORROWINGS FROM CREDIT INSTITUTIONS

(EUR)

	31.12.2019.	31.12.2018.
Non-current borrowings from credit institutions	148 828 298	165 409 358
Current borrowings from credit institutions	40 359 060	34 695 612
Total borrowings from credit institutions	**189 187 358**	**200 104 970**

Borrowings were raised from Swedbank AS, Nordea Bank AB, Luminor Bank AS Latvian branch, SEB banka AS, North Investment Bank, OP Corporate Bank plc and OP Corporate Bank branch in Latvia. During the reporting period, the total borrowings were EUR 23 778 000 and EUR 34 695 612 were repaid.

The concluded credit agreements with banks specify the financial indicators that the Company must comply with during the term of the agreement. According to the calculations, one of the indicators was not met, but all the other conditions were met. In February 2020, letters were sent to two banks with an explanation of deviations from the indicators and a request not to request early repayment of the issued loan. Meetings with banks were also organized and the financial situation was explained, as the other criteria are met and meets the conditions of the banks. At the time of preparing the report, no information has been received from banks indicating the possible requirement for early repayment of loans.

Latvijas dzelzceļš has not pledged its properties when receiving loans.

The amount of borrowings to be repaid and interest rates as at 31 December 2019:

(EUR)

CURRENCY OF THE BORROWING	BORROWING, EUR	INTEREST RATE
	13 222 560	1M EURIBOR + 1,33%
EUR	129 717 010	3M EURIBOR + 0,69% līdz 1,61%
	46 247 788	6M EURIBOR + 1,05% līdz 1,8%
Total	**189 187 358**	

The amount of borrowings to be repaid and interest rates as at 31 December 2018:

(EUR)

CURRENCY OF THE BORROWING	BORROWING, EUR	INTEREST RATE
	22 131 377	1M EURIBOR + 1,33%
EUR	124 022 249	3M EURIBOR + 0,69% līdz 1,61%
	53 951 344	6M EURIBOR + 1,05% līdz 1,8%
Total	**200 104 970**	

Movement table of borrowings

(EUR)

	2019	2018
Borrowings outstanding at the beginning of the reporting period	**200 104 970**	**208 248 230**
Received in the reporting year	23 778 000	24 965 917
Paid in the reporting year	(34 695 612)	(33 109 177)
Borrowings outstanding at the end of the reporting period	**189 187 358**	**200 104 970**

28. OTHER BORROWINGS

(EUR)

	31.12.2019.	31.12.2018.
Settlement for the property title under the contract for the construction of the optical telecommunications networks (expansion) in sections Liepaja-Jelgava-Riga-Valka railway [*1)] incl.	-	2 203 567
non-current portion		
Including, liabilities payable after more than five years after the end of the reporting period	-	*1 735 551*
liabilities maturing in more than one year, however, not later than five years after the end of the reporting period	-	*468 016*
current portion	-	117 004
Total	**-**	**2 320 571**

[*1)] In 2019, it was reclassified to a lease liability in accordance with IFRS 16.

29. DEFERRED INCOME

(EUR)

	31.12.2019.	31.12.2018.
Non-current portion of deferred income (EU fund financing and State budget financing)	274 298 372	290 237 333
Other deferred income	91 785	116 472
Total non-current portion	**274 390 157**	**290 353 805**
Current portion of deferred income (EU fund financing and State budget financing)	20 571 574	19 394 416
Other deferred income	1 498 025	111 240
Total current portion	**22 069 599**	**19 505 656**
Total deferred income	**296 459 756**	**309 859 461**

For most part, the deferred income consists of EU funds and state budget funds received for the development of railway infrastructure.

Movement of EU and state budget project funds in 2019

(EUR)

DEFERRED INCOME	AT 01.01.2019	RE-CLASSIFIED (TRANSFERRED)	STATE BUDGET FUNDS RECEIVED	DECREASE IN THE USE OF FIXED ASSETS	AT 31.12.2019
Non-current portion	290 237 333	(20 614 726)	4 675 765	-	274 298 372
Current portion	19 394 416	20 614 726	-	(19 437 568)	20 571 574
Total	**309 631 749**	**-**	**4 675 765**	**(19 437 568)**	**294 869 946**

In 2019, an advance payment of EUR 4 664 375 was received from EU funds for the project "Modernisation of the Riga railway junction section Sarkandaugava - Mangaļi - Ziemeļblāzma " and an advance payment of EUR 21 073 was received from the European Commission Innovation and Networks Executive Agency (INEA) as the manager of the Connecting Europe Facility (CEF) for the project "Establishment of an Interoperable Rail System in the Baltic States", whereof EUR 9 683 Latvijas dzelzceļš as the beneficiary of the financing transferred the AS Eesti Raudtee.

Movement of EU and state budget project funds in 2018

(EUR)

DEFERRED INCOME	AT 01.01.2018	RE-CLASSIFIED (TRANSFERRED)	STATE BUDGET FUNDS RECEIVED	DECREASE IN THE USE OF FIXED ASSETS	AT 31.12.2018
Non-current portion	307 638 803	(19 401 470)	2 000 000	-	290 237 333
Current portion	19 859 585	19 401 470	-	(19 866 639)	19 394 416
Total	**327 498 388**	-	**2 000 000**	**(19 866 639)**	**309 631 749**

In 2018, financing was received from the State budget for the priority measure, i. e, the construction of a pedestrian tunnel at the Ogre station, a public railway infrastructure object, with the aim of improving the safety level near the railway station with an intense pedestrian and train traffic.

30. TAXES AND NATIONAL SOCIAL INSURANCE MANDATORY CONTRIBUTIONS

(EUR)

TYPE OF TAX	OVERPAID TAXES (-) LIABILITIES (+) AT 31.12.2018	CALCULATED FOR 2019	PAID FOR 2019	OVERPAID TAXES (-) LIABILITIES (+) AT 31.12.2019
Corporate income tax	(974)	-	(30 000)	(30 974)
Corporate Income Tax from non-residents	-	3 360	(3 360)	-
National social insurance mandatory contributions	3 676 643	30 952 948	(31 994 561)	2 635 030
Personal income tax	1 845 273	14 373 922	(14 944 071)	1 275 124
incl. in Belarus	*1 307*	*8 243*	*(8 869)*	*681*
Real estate tax	(14)	612 307	(612 598)	(305)
Excise tax	2 932	7 144	(7 595)	2 481
Value added tax	4 483 905	24 166 476	(26 999 973)	1 650 408
Import duty tax	-	8 274	(8 274)	-
Vehicle operation tax	969	53 934	(54 555)	348
Company light vehicle tax	5 849	28 609	(33 914)	544
Business risk duty	2 286	27 634	(27 651)	2 269
Road use duty	-	70 368	(70 368)	-
Stamp duty for the regulation of public services	-	8 259	(8 259)	-
Total	**10 016 869**	**70 313 235**	**(74 795 179)**	**5 534 925**
overpaid taxes	(988)			(31 279)
tax liabilities	10 017 857			5 566 204

Tax liabilities arose in December 2019. At 31.12.2019, *Latvijas dzelzceļš* did not have any overdue amounts to the State budget.

31. MANAGING FINANCIAL RISKS

The Company's most significant financial instruments are borrowings from banks, other borrowings, cash and deposits with banks as well as receivables and payables. The key purpose of these financial instruments is to ensure financing to *the Company's* business activities. *The Company* has several other financial assets and liabilities, such as receivables and payables to suppliers and contractors arising directly from operating activity.

The Company is exposed to market, credit and liquidity risks in connection with its financial instruments.

Financial risks are managed by the Finance Directorate of *Latvijas dzelzceļš* and *the Company's* Finance Committee.

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

(EUR)

	31.12.2019.	31.12.2018.
Financial assets at amortised cost		
Trade and other debtors, except advances	55 513 821	64 169 141
Cash and cash equivalents	21 428 257	34 797 659
Financial assets at fair value with revaluation to profit and loss		
Long-term financial investments	84 108	84 108
Total financial assets	**77 026 186**	**99 050 908**
Financial liabilities at amortised cost		
Borrowings from credit institutions	189 187 358	200 104 970
Other borrowings	-	2 320 571
Trade and other payables, except advances (including the non-current portion)	31 502 821	22 279 960
Total financial liabilities	**220 690 179**	**224 705 501**

Market risk

Market risk is a risk that changes in market risk factors, e.g. changes in foreign currency rates, interest rates and goods prices will affect *the Company's* revenue or the value of financial instruments owned by it. Market risk includes currency risk and interest rate risk.

Interest rate risk

Interest rate risk is the risk of incurring losses related to the changes in the interest rates applicable to the Company's assets and liabilities. *The Company* is exposed to changes in market interest rates in relation to its non-current liabilities, to which a variable interest rate was applied.

All of the Company 's borrowings have variable interest rates. For a detailed description of the interest rates on the borrowings, see Note 27. *The Company* manages the risk of changes in interest rates through regular monitoring of the available market borrowing rates. If lower than existing interest rates are available, the Company shall assess the financial benefit of re-crediting.

The Company does not use derivative financial instruments for interest rate risk management purposes.

Interest rate sensitivity

In the table below, *the Company 's* sensitivity of profit before tax to reasonably possible changes in interest rates at the end of each specified reported period is shown, if all other variables remain unchanged. *The Company's* equity, other than the performance for the reporting year, would not be affected.

	2019		2018	
	INCREASE/DECREASE IN THE BASE RATE (BASE POINTS	IMPACT ON THE PROFIT BEFORE TAXES (EUR)	INCREASE/DECREASE IN THE BASE RATE (BASE POINTS)	IMPACT ON THE PROFIT BEFORE TAXES (EUR)
EURIBOR	(+100)	(1 891 874)	(+100)	(2 001 050)
	(-100)	1 891 874	(-100)	2 001 050

Currency risk

Currency risk is the risk of incurring losses due to adverse exchange rate changes related to assets and liabilities denominated in foreign currencies. Currency risk to which *the Company* is exposed, mainly arises from its business activity: revenue and expenses are denominated in different currencies to those in which foreign currency borrowings are nominated. *The Company's* trade receivables are mainly denominated in *euro* while borrowings from banks are denominated in USD. A detailed breakdown of financial instruments by currency given in Note 34.

The main foreign currency (FX) risk management instrument used by *the Company* is the monitoring of the assets and use for covering liabilities in foreign currencies.

The Company does not use derivative financial instruments for managing currency risk.

Sensitivity of currencies

The Company did not have significant foreign currency balances during the reporting year, therefore the potential impact of exchange rate fluctuations was insignificant.

Credit risk

Credit risk is the risk that the counterparty might not meet their obligations owed to *the Company*, resulting in significant financial losses. *The Company* is exposed to credit risk arising directly from its operating activities – mostly trade receivables, and credit risk in connection with *the Company's* financing activities – mainly cash deposits with banks.

Trade receivables

The Company manages the credit risk of trade receivables in accordance with the Group's policies. The solvency of customers is ascertained before entering into contracts. Company manage credit risk through prepayments from its customers.

The Company continuously monitors the balances of receivables to reduce the likelihood of bad debts arising. The potential impairment of trade receivables is continuously monitored.

The Company has not received any pledges as a security against trade receivables.

As at 31 December 2019, *the Company* had 3 customers (4 customers in 2018), each of which owed *the Company* more than EUR 700 thousand and accounted for approximately 90% (90.8% in 2018) of the total receivables. Excluding the debts of subsidiaries that have not yet matured on 31 December 2019, more than EUR 700 thousand was due from one customer, which accounted for 6.5% of total receivables.

The Company has not developed an internal credit rating system for the assessment of trade receivables.

During 2019, there have been no significant changes in the expected credit losses with regard to trade receivables.

Receivables are written off only when recovering them is not expected. The indicators, which show the impossibility of recovering the debt include, among other things, inability to agree with the customer on the repayment schedule, which is complemented by the debtor's insolvency, bankruptcy or winding up.

The Company is exposed to credit risk as set out in the table below:

(EUR)

	31.12.2019.	31.12.2018.
Cash and cash equivalents	21 428 257	34 797 659
Trade and other receivables (gross amount), except advances and prepayments	56 244 838	64 972 103
Total	**77 673 095**	**99 769 762**

Expected credit losses as at 31 December 2019 are determined by applying the following expected credit loss rates:

(EUR)

	Not delayed	Delayed for more than 30 days	Delayed for more than 90 days	Delayed for more than 120 days	Total
Expected credit loss rate	0.07%	2.00%	11.00%	95.00%	-
Loans to affiliated companies	47 961 358	-	-	-	**47 961 358**
Trade and other receivables (gross amount)	7 546 297	5 015	874	731 294	**8 283 480**
Expected credit losses	36 092	100	96	694 729	**731 017**

Expected credit losses as at 31 December 2018 are determined by applying the following expected credit loss rates:

(EUR)

	Not delayed	Delayed for more than 30 days	Delayed for more than 90 days	Delayed for more than 120 days	Total
Expected credit loss rate	0.04%	2.00%	11.00%	95.00%	-
Loans to affiliated companies	52 285 103	-	-	-	**52 285 103**
Trade and other receivables (gross amount)	11 847 084	15 918	4 468	819 530	**12 687 000**
Expected credit losses	23 599	318	491	778 554	**802 962**

Cash deposits

Credit risk arising from *the Company's* cash deposits with banks is managed by *the Company's* Finance Committee in accordance with *the Company's* financial management policy. Under the said policy the free resources of *the Company* may be invested only in deposits or money market funds. Before deploying funds in banks (current or deposit accounts), *the Company's* Finance Committee assesses the bank's credit rating and offered interest rates.

The Company's cash balances in banks according to the agency Moody's assigned banks' credit ratings:

(EUR)

CREDIT RATING	31.12.2019.	31.12.2018.
Aa2	11 430	7 605 319
Aa3	2 000	184
Baa1	13 319 645	25 188 823
Without a rating*	8 093 004	2 000 078
Total	**21 426 079**	**34 794 404**

**The ratings are not assigned to the State Treasury and VAS Latvijas Pasts (the State-owned* company).

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

(EUR)

	31.12.2019.	31.12.2018.
Cash and cash equivalents	21 428 257	34 797 659
Trade and other receivables (gross amount), except advances and prepayments	56 244 838	64 972 103
Total	**77 673 095**	**99 769 762**

Liquidity risk

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

The Company's Financial Committee manages liquidity risk by maintaining sufficient cash reserves and providing sufficient financing, using the assigned loans, lines of credit, finance lease, etc., as well as constantly monitoring forecast and actual cash flows and matching the age structure of financial assets and liabilities.

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

In 2019, as a result of *the Company's* operations, a profit of EUR 32 thousand has been obtained. As at 31 December 2019, *the Company's* current liabilities exceeded its current assets by EUR 45 523 thousand. Current liabilities include deferred income of EUR 20 572 thousand, which are related to the investment of EU projects and state budget funds in the public railway infrastructure, and are gradually written off in revenues, therefore there is a low risk that financial resources will be needed to cover these liabilities. The total liquidity ratio is 0.5, but excluding current liabilities, it is 0.7. *The Company's* cash flows from operating activities are positive. In view of the above circumstances, we believe that *the Company* is financially stable and able to cover its current payments.

The concluded credit agreements with banks specify the financial indicators that *the Company* must comply with during the term of the agreement. According to the calculations, one of the indicators was not met, but all the other conditions were met. In February 2020, letters were sent to two banks with an explanation of deviations from the indicators and a request not to request early repayment of the issued loan. Meetings with banks were also organized and the financial situation was explained, as the other criteria are met and meets the conditions of the banks. At the time of preparing the report, no information has been received from banks indicating the possible requirement for early repayment of loans.

In the tables below, *the Company's* financial liabilities are presented broken down by their maturity date, based on the amounts of undiscounted financial obligations provided for in agreements, including interest payments:

(EUR)

AT 31 DECEMBER 2019	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Borrowings from credit institutions	9 004 219	33 146 133	106 609 613	47 424 331	196 184 296
Other liabilities (including other loans, trade payables and other payables)	13 680 941	8 096 300	7 864 264	2 162 448	31 803 953
Total	**22 685 160**	**41 242 433**	**114 473 877**	**49 586 779**	**227 988 249**

(EUR)

AT 31 DECEMBER 2018	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Borrowings from credit institutions	8 710 352	28 311 995	112 945 715	57 716 561	207 684 623
Other liabilities (including other loans, trade payables and other payables)	15 464 204	6 446 497	954 279	1 735 551	24 600 531
Total	**24 174 556**	**34 758 492**	**113 899 994**	**59 452 112**	**232 285 154**

32. FAIR VALUE CONSIDERATIONS

IFRS 13 lays down the value measurement technique hierarchy, based on whether the measurement technique uses observable market data or market data are not observable. Observable market data are obtained from independent sources. If market data are not observable, the value measurement technique reflects *the Company's* assumptions about the market situation.

The said hierarchy requires that observable market data must be used, if they are available. In carrying out revaluation, *the Company* takes into consideration the relevant observable market prices, if possible.

The purpose of the fair value measurement, even in inactive markets, is to arrive at the price at which market participants would be willing to sell the asset or assume the liability at the measurement date under current market conditions.

To determine the fair value of a financial instrument, several methods are used: quoted prices or a valuation technique that includes observable market data and is based on internal models. Based on the fair value hierarchy, all measurement techniques are subdivided into Level 1, Level 2, and Level 3.

The fair value hierarchy level of a financial instrument level must be determined as the lowest level, if a substantial part of the value is made up of lower level data.

In the fair value hierarchy, financial instruments are grouped into two stages:

1. Group the data of each level to determine the fair value hierarchy;

2. Assets are grouped at the lowest level, based on proportion of observable data used in determination of the fair value.

Quoted market prices – Level 1

For the measurement technique of Level 1, the quotation prices for identical assets or liabilities on an active market are used when the quotation prices are readily available and the relevant price represents the actual market situation for fair business competition. *The Company* does not have any financial instruments measured at Level 1.

Value measurement technique when market data are used – Level 2

In the models used for the measurement technique of Level 2, all essential data are used which are directly or indirectly observable on part of the assets or liabilities. The model uses market data other than the quoted prices of Level 1, but which can be observed directly (i.e., the price), or indirectly (i.e., are derived from the price). *The Company* does not have Level 2 financial instruments.

Value measurement technique when such market data are used which are not based on observable market data - Level 3

For the measurement technique when the market data not based on observable market data are used (not observable market data) are classified as Level 3. Not observable market data are deemed to be such data that are not readily available in an active market due to an illiquid market or the complexity of the financial instrument. Level 3 data are primarily determined on the basis of similar observable market data, historical observations or using an analytical approach.

All *the Company's* financial instruments comply with the Level 3 valuation technique.

Assets and liabilities for which fair value is disclosed

The carrying amount of liquid and short-term financial instruments (with maturity of up to 3 months), for example, cash and cash equivalents, short-term deposits, current trade payables and trade receivables, approximates their fair value.

The fair value of borrowings from credit institutions, finance lease liabilities and other long-term liabilities is measured by discounting future cash flows and applying market interest rates. As interest rates applied on loans from credit institutions, finance lease liabilities and other long-term liabilities are variable and do not significantly differ from market rates, and as the risk margin applicable to *the Company* has not changed significantly, the fair value of long-term liabilities approximates their carrying value.

33. CAPITAL MANAGEMENT

The Republic of Latvia owns 100% of VAS Latvijas dzelzceļš.

The Company's objectives in relation to capital management is to ensure *the Company's* ability to continue its business and earn the return on capital as determined by the shareholder meetings of the relevant companies. As the only shareholder of the Company, the Latvian Government has the right to take decisions related to the increase or reduction of the share capital of *the Company*, the payment of dividends or using them for the development of the Company.

In the context of the capital management *the Company* evaluates the debt-total capital ratio. The risk management policy of *the Company* does not define the level of this ratio. Credit agreements with banks specify financial ratios that *the Company* must comply with during the term of the agreement, if the ratios are not met, then, when preparing the annual report, letters are received from banks that the lender will not demand repayment in an earlier period. When preparing the short-term and long-term financial plan and budget, *the Company* takes into account the financial conditions set by the banks regarding the ratio of borrowed capital to total capital.

	31.12.2019.	31.12.2018.
Borrowings from credit institutions and other borrowings	189 187 358	202 425 541
Payables (including taxes)	37 895 566	42 846 157
Other liabilities	298 444 658	313 482 391
Total liabilities	**525 527 582**	**558 754 089**
Equity	318 838 980	318 806 550
Total liabilities and equity	**844 366 562**	**877 560 639**
Borrowings/Total capital ratio	62%	64%
Equity to total liabilities	61%	57%

(EUR)

34. BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY CURRENCY

The Company's financial instruments by currency at 31 December 2019 are presented below:

	EUR	USD EUR	OTHER CURRENCIES EUR	TOTAL EUR
Trade and other debtors, except advances	55 513 821	-	-	55 513 821
Cash and cash equivalents	21 427 196	996	65	21 428 257
Total financial assets	**76 941 017**	**996**	**65**	**76 942 078**
Borrowings from credit institutions	189 187 358	-	-	189 187 358
Trade payables, payables to contractors and other payables, except advances	31 494 795	89	7 937	31 502 821
Total financial liabilities	**220 682 153**	**89**	**7 937**	**220 690 179**

The Company's financial instruments by currency at 31 December 2018 are presented below:

	EUR	USD EUR	OTHER CURRENCIES EUR	TOTAL EUR
Trade and other debtors, except advances	64 169 141	-	-	64 169 141
Cash and cash equivalents	34 791 649	5 951	59	34 797 659
Total financial assets	**98 960 790**	**5 951**	**59**	**98 966 800**
Borrowings from credit institutions	200 104 970	-	-	200 104 970
Other borrowings	2 320 571	-	-	2 320 571
Trade payables, payables to contractors and other payables, except advances	22 259 099	3 618	17 243	22 279 960
Total financial liabilities	**224 684 640**	**3 618**	**17 243**	**224 705 501**

35. CAPITAL INVESTMENT COMMITMENTS

Over the next reporting year, *the Company* expects to make capital investments in property, plant and equipment and intangible assets, of which:

- major contracts entered into but not yet completed are:

NAME OF THE COUNTERPARTY, SUBJECT OF THE AGREEMENT	DATE OF THE AGREEMENT	MATURITY TERM OF THE AGREEMENT	CONTRACTUAL AMOUNT EUR
Association of persons "Belam-Leonhard Weiss" Modernization of Riga railway junction section Sarkandaugava-Mangaļi-Ziemeļblāzma: construction	13.12.2019.	15.01.2023.	21 950 000
General partnership "BMGS – Viadukts" Construction of a pedestrian tunnel at Ogre station	01.03.2019.	20.11.2020.	1 489 999

- major transactions approved, but not yet entered into in the reporting year:

NAME OF THE COUNTERPARTY, SUBJECT OF THE AGREEMENT	DATE OF THE AGREEMENT	MATURITY TERM OF THE AGREEMENT	CONTRACTUAL AMOUNT EUR
SIA "LVS Building" capital repairs of roof structure for railway station building at Liepaja	Negotiated procedure with publication 16.12.2019	30.06.2020.	481 777

Implementation of fixed assets and costs of construction in progress

(EUR)

NAME OF OBJECTS WORK IN PROGRESS	BALANCE OF WORK IN PROGRESS OBJECTS AS AT 31.12.2019.	ESTIMATED COSTS IN 2019	SCHEDULED DATE OF PUTTING INTO SERVICE
Replacement of the APIKS program (C-KNIS)	458 710	672 000	in 2020
Overhaul of station buildings	399 322	498 000	in 2020
Change of heating system in real estate objects	313 243	79 444	in 2020
Renovation of energy and automation devices	167 979	654 000	in 2020
Electronicization and optimization of freight information flow - Traffic Management IS	216 854	90 000	in 2020
Overhaul of railway technological buildings and external engineering networks	150 487	173 000	in 2020
Development of the Latvijas dzelzceļš Museum	105 649	60 000	in 2020
Renovation of tracks, capital repairs of engineering structures	56 308	43 640	in 2020
Development or modernization of IT technologies	43 676	1 603 827	in 2023
Other construction in progress	49 062	107 000	in 2020
Total	**1 961 290**	**3 980 911**	**x**

36. CONTINGENT TAX LIABILITIES

The tax authorities may, at any time, carry out the audit of accounting records within a period of three years from the end of the tax year and charge additional tax liabilities and fines. *The Company's* Management is not aware of any such circumstances that might lead to possible significant future obligations.

37. FUTURE LEASE PAYMENTS

Operating lease income in 2019 is EUR 3 391 532. It is planned to receive operating lease income in the period from 1 to 5 years in the amount of 2019.

38. NUMBER OF EMPLOYEES

The average number of persons employed by *the Company* in 2019 is 6 345 (6 439 in 2018).

39. TRANSACTIONS WITH RELATED PARTIES

The Company engages in transactions with the Ministry of Transport (100% shareholder of *Latvijas dzelzceļš*) and other commercial companies owned by the State. The largest transactions are carried out with AS "Pasažieru vilciens" (charges for the public use of the railway infrastructure for domestic passenger services, electricity distribution and sales, leasing of premises, subscribers' tickets) for EUR 31 175 thousand (in 2018: EUR 50 952 thousand) and VAS "Latvenergo" (purchasing of electricity) for EUR 8 350 thousand (in 2018: EUR 8 536 thousand). The mutual transactions are related to the principal activities of the relevant parties.

Transactions with subsidiaries:

(EUR)

COUNTERPARTY	2019 GOODS / SERVICES		2018 GOODS / SERVICES	
	SOLD / SUPPLIED	BOUGHT / RECEIVED	SOLD / SUPPLIED	BOUGHT / RECEIVED
SIA "LDZ CARGO"	104 556 786	12 043 393	132 764 577	12 090 739
SIA "LDZ ritošā sastāva serviss"	2 932 678	3 243 598	3 162 228	3 744 732
SIA "LDZ infrastruktūra"	674 248	3 454 270	729 780	4 167 880
SIA "LDZ apsardze"	345 966	5 059 187	388 489	5 061 848
AS "LatRailNet"	81 425	692 100	63 153	1 240 877
SIA "LDZ Loģistika"	350 362	-	278 172	-
SIA "Rīgas Vagonbūves uzņēmums "Baltija""	3 370	-	3 197	-

Debts of related companies:

(EUR)

SUBSIDIARY	31.12.2019.	31.12.2018.
Short - term debts		
SIA "LDZ CARGO"	5 349 415	5 925 667
SIA "LDZ ritošā sastāva serviss"	4 557 368	4 599 537
SIA "LDZ infrastruktūra"	38 337	35 544
SIA "LDZ apsardze"	32 349	33 018
AS "LatRailNet"	6 950	5 655
SIA "LDZ Loģistika"	31 174	25 957
SIA "Rīgas Vagonbūves uzņēmums "Baltija""	331	332
Total	**10 015 924**	**10 625 710**
of which formed in December of the reporting year	5 692 149	6 301 760
Long - term debts		
SIA "LDZ ritošā sastāva serviss"	43 637 613	47 961 358

Payables to affiliated companies:

(EUR)

SUBSIDIARY	31.12.2019.	31.12.2018.
SIA "LDZ CARGO"	809 917	1 368 307
SIA "LDZ ritošā sastāva serviss"	298 730	305 495
SIA "LDZ infrastruktūra"	1 089 855	1 425 892
SIA "LDZ apsardze"	653 239	587 943
Total	**2 851 741**	**3 687 637**
of which formed in December of the reporting year	2 851 314	3 687 210

40. GOING CONCERN

Freight trends in the beginning of 2020, as well as current turbulences in the global and regional economies, evidence that freight volumes will not improve significantly. In addition, in early 2020, the existence of the novel coronavirus Covid-19 was confirmed and by now it has spread across the world, including Latvia, causing disruptions to businesses and economic activity. *The Company* considers the spread of the virus to be a non-adjusting event after the balance sheet date. As the situation is uncertain and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of the virus on *the Company*, however, we expect that as a result of virus, there might be further decline in volume of cargo transportation, as well as there will be decline in volume of passenger transportation, thus even more decreasing revenue from infrastructure capacity sales and revenue from cargo transportation. Moreover, there might be negative impact on recoverability of accounts receivable. Taking into account significant decrease in revenue, *the Company* has concerns about recoverability of its assets as well.

Thus, although it is in the interest of the Latvian economy to maintain the railway network in full despite the stringent cost optimization and efficiency improvement measures launched at the end of 2019, *Latvijas dzelzceļš* will not be able to maintain financial stability in 2020, because revenues have fallen so significantly and continue falling so that they do not cover costs, which already are reduced to the lowest possible level while not compromising the quality of railway infrastructure and traffic safety.

In response to the changes in freight volumes in 2019, *Latvijas dzelzceļš* has reviewed the approved budget for 2020 and amended it already at the beginning of 2020, with the assumption that the total volume of freight transportation will decrease significantly. In order to meet the planned budget, the Group crisis action plan was developed, which includes a series of cost reduction measures. As significant part of *Latvijas dzelzceļš* costs is related to employee expenses - labour costs, the review of organizational and technological processes will continue to optimize the number of employees in 2020. In the 1st quarter of 2020, 655 employees were made redundant.

On March 20, 2020, at the meeting of the shareholders of the dependent companies, it was decided to pay dividends from the previous years retained earnings of the dependent companies, as a result of which the Company's cash flow was improved by EUR 19 180 thousand.

Additionally, from the beginning of 2020 a new business model for the Group is being developed, together with an action plan for its implementation, which will be launched in the second half of 2020. In line with the new business model, medium-term strategies will be developed for both *the Company* and its dependent companies.

On March 17, 2020, in accordance with the Multi-Annual Agreement "On Planning and Financing the Maintenance and Development of Public Use Railway Infrastructure Under the Management of Latvijas dzelzceļš" (hereinafter - the Multi-Annual Agreement) Latvijas dzelzceļš has submitted to the Ministry of Transport the Informative Report explaining that it is expected that the infrastructure manager's financial stability can be breached as soon as in the first quarter of 2020; therefore Latvijas dzelzceļš needs additional funding from the state budget to ensure its financial stability. Latvijas dzelzceļš also needs additional financial resources to compensate full ineligible costs of the passenger transport services provided in connection with the public service contract (hereinafter - public transport services) throughout 2020.

The management of *Latvijas dzelzceļš* acknowledges that there is a material uncertainty about the ability of *the Company* to continue its operations on a going concern basis. Key sources of this uncertainty are:

- Uncertain timing and uncertain receipt of additional financial resources required for Latvijas dzelzceļš to compensate for infrastructure maintenance and repaid costs to such an extent as to be able to cover costs required for provision of public transportation services throughout 2020 in accordance with the Multi-Annual Contract;
- Uncertainties related to the receipt of financing from the State to support the financial stability of Latvijas dzelzceļš under Multi-Annual Contract and timing of receipt of this financing, taking into account emergency situation caused by Covid-19 and ability of the State to provide further support from the State budget;
- Uncertainties related to breach of financial covenant in bank loan agreements, as described in the section Liquidity risk of Note 31.

Despite this uncertainty, management of *Latvijas dzelzceļš* considers that going concern principle is applicable to the preparation of these financial statements, justifying its application by the development of new operating business model of *the Group*, review of crisis plan and technological processes, which will result in decrease of operating costs in the future. As main goal of *the Company* is to ensure management of the public use railways infrastructure combines with safe, high quality and efficient railways and logistics services in the interest of the State, Society and Latvian economy, we consider that fulfilment of Multi-Annual Contract conditions will not be postponed. As a result, financial statements have been prepared applying the going concern principle and no amendments were made to the values of assets or liabilities that might be required have the financial statements been prepared on a basis other than going concern.

41. EVENTS AFTER THE DATE OF PREPARATION OF THESE FINANCIAL STATEMENTS

On March 13, 2020, changes in the management of *Latvijas dzelzceļš* came into effect - the Supervisory Council of Latvijas dzelzceļš approved the position of Chairman of the Board Maris Kleinbergs, who has been temporary chairman of the Latvijas dzelzceļš since August 12, 2019. Ainis Stūrmanis, who was responsible for the company's development projects, has been recalled from the Board due to the reduction of the number of members of the Board of Latvijas dzelzceļš Board. From now on the development of the company will be the responsibility of the Chairman of the Board. Vita Balode - Andrūsa is also appointed to the board of Latvijas dzelzceļš, and she will be responsible for the company's financial matters. Maris Kleinbergs will assume the position of Chairman of the Board of Latvijas dzelzceļš immediately after the decision of the Board, while Vita Balode - Andrūsa will start working in the Board of Latvijas dzelzceļš on June 1 this year. Until June 1, 2020, Andris Lubāns will temporary continue to perform the duties of a member of the Board of Latvijas dzelzceļš Board.

On January 28, 2020, the Cabinet of Ministers, by order No.35, determined that Latvijas dzelzceļš will not pay dividends from the profit of 2018, but will divert the profit part of EUR 2 922 272 for the development and renovation of the public railway infrastructure, including creation of a reserve, which can be used for implementation of public railway infrastructure projects planned by the State Joint Stock Company "Latvijas dzelzceļš" in accordance with the medium-term operational strategy for 2017-2022. A profit share of EUR 1 255 492 shall be allocated to finance public passenger railway infrastructure in the passenger segment in 2019.

Except as mentioned above, there are no other subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at 31 December 2019.

42. PROPOSALS FOR THE DISTRIBUTION OF COMPANY'S PROFIT

The profit in 2019 is EUR 32 thousand.

Under section 28 (part 1, part 2) of the Public Person's Shares and Companies Governance Act, the profit share expected to be paid in dividends and the profit share actually payable in dividends must be set according to *the Company's* medium-term business strategy, the objectives prescribed by that strategy, and the extent to which those objectives are being achieved. Based on its medium-term business strategy, the Company's Board should prepare a proposal for the profit share expected to be paid in dividends and should submit it to the shareholder.

Chapter 17 of *the Company's* medium-term business strategy for 2017–2022, approved by the Council decision PA 1.2./11-1 of 8 November 2018, provides that for the strategy period, it is crucial to set a different share of *the Company's* net profit payable to the State in dividends, leaving the profit at *the Company's* disposal and applying it for the development and renovation of the public railway infrastructure, including creating a reserve to be used for maintaining the Company's business sustainability and for carrying out its intended public railway infrastructure projects.

An opinion on *the Company's* medium-term business strategy for 2017–2022 expressed in the Interdepartmental Coordination Centre's letter No. 1.2-5.1/159-IP of 30 November 2017 supported the setting of such a different profit share payable in dividends.

The Plan was approved by the Cabinet of Ministers' Order No. 588 of 6 November 2018, and on 9 November 2018 the Ministry of Transport and *Latvijas dzelzceļš* as infrastructure manager entered into a multi-annual agreement on planning the maintenance and development and financing of the existing public railway infrastructure managed by *Latvijas dzelzceļš* for the period from 9 November 2018 to 31 December 2022.

The mechanism for ensuring the public railway infrastructure manager's financial balance prescribed by the Plan may operate and investment projects may be carried out if the Cabinet of Ministers' decision setting *the Company's* profit share payable to the State in dividends at 0% of *the Company's* net profit for 2018–2021 (Cabinet Order No. 212 of 15 May 2018 on a different profit share of Latvijas dzelzceļš VAS payable in dividends for 2018–2021) is incorporated into the annual National Budget Bill and the Medium-Term Budgetary Framework Bill for the relevant periods.

Riga, 23 April 2020

Chairman of the Board	M. Kleinbergs
Member of the Board	A. Lubāns
Member of the Board	Ē. Šmuksts

The financial statements have been prepared by the Finance Directorate of VAS "Latvijas dzelzceļš":

Deputy Chief Financial Officer, Head of Finance Department	S.Gasjūna