

**JOINT STOCK COMPANY RB RAIL  
(UNIFIED REGISTRATION NUMBER 40103845025)  
ANNUAL REPORT  
FOR THE YEAR ENDING 31.12.2016  
(2<sup>nd</sup> financial year)  
PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
TOGETHER WITH INDEPENDENT AUDITORS' REPORT  
Riga, 2017**

## **CONTENTS**

<b>General information</b>	<b>3</b>
<b>Management report</b>	<b>5</b>
<b>Statement of comprehensive income</b>	<b>7</b>
<b>Statement of financial position</b>	<b>8</b>
<b>Statement of cash flows</b>	<b>10</b>
<b>Statement of changes in equity</b>	<b>11</b>
<b>Notes to the financial statements</b>	<b>12</b>
<b>Independent auditors' report</b>	<b>29</b>

## General information

Name of the company	RB Rail AS
Legal status of the company	Joint Stock Company
Unified registration number, place and date of registration	LV40103845025 Riga, 12 November 2014
Registered office	Riga, Gogola iela 3 LV-1050, Latvia
Visiting office	Riga, Krisjana Valdemara iela 21 LV-1010, Latvia
Shareholders	Rail Baltic Estonia OÜ (33.33%) Registration No. 12734109 Harju tn 11, Tallinn, Harju county, 15072, Estonia  Eiropas dzelzceļa linijas SIA (33.33%) Registration No. 40103836785 Gogola street 3, Riga, LV-1050, Latvia  Rail Baltica statyba UAB (33.33%) Registration No. 303227458 Mindaugo street 12, Vilnius, LT-03105, Lithuania
Type of operations	To design, construct and market Rail Baltica railway line
NACE code	42.12 Construction of railways and underground railways
Reporting period	1 January 2016 – 31 December 2016
Previous reporting period	12 November 2014 – 31 December 2015
Auditor and certified auditor name and address	Deloitte Audits Latvia SIA Gredu iela 4A Riga, LV-1019 Latvia  Certified auditor in charge: Jelena Mihejenkova Certificate No. 166

## Information about the company's management

### Members of the Management Board

Name	Position	Elected	Released
Baiba Anda Rubesa	Member of the Management Board	30.10.2015	-
Edvins Berzins	Member of the Management Board	12.11.2014	30.10.2015

### Members of the Supervisory Board

Name	Position	Elected	Released
Edvins Berzins	Chairman of the Supervisory Board	20.01.2017	-
Dainius Budrys	Chairman of the Supervisory Board	28.01.2016	20.01.2017
Anti Moppel	Chairman of the Supervisory Board	12.11.2014	28.01.2016
Anti Moppel	Vice-Chairman of the Supervisory Board	28.01.2016	-
Danielius Dolgich	Vice-Chairman of the Supervisory Board	01.11.2016	-
Edvins Berzins	Vice-Chairman of the Supervisory Board	28.01.2016	20.01.2017
Aivars Straksas	Vice-Chairman of the Supervisory Board	14.10.2015	28.01.2016
Indrek Orav	Member of the Supervisory Board	12.11.2014	-
Dainius Budrys	Member of the Supervisory Board	01.11.2016	-
Kaspars Briskens	Member of the Supervisory Board	12.11.2014	21.10.2016
Vaidotas Balynas	Member of the Supervisory Board	12.11.2014	21.10.2016
Vineta Rudzite	Member of the Supervisory Board	01.11.2016	-

## Management report

22 March 2017

### **The Goal of the Global Project *Rail Baltica***

*Rail Baltica* is a European rail transport infrastructure project with the goal to fully integrate the Baltic States into the core European rail network. Starting in the Baltic countries, when completed, *Rail Baltica* will include five European Union countries – Poland, Lithuania, Latvia, Estonia and Finland.

The joint venture RB Rail AS was established based on the joint declaration of the Prime Ministers of Estonia, Latvia and Lithuania on 21 June 2014, by approving the Shareholders' Agreement whereby *Rail Baltica* is defined as a fast conventional double track 1435 mm gauge electrified continuous railway line with a maximum design speed of 240 km/h for a route that spans Tallinn-Pärnu-Riga-Panevezys-Kaunas to the Lithuanian-Polish border, including a connection from Kaunas to Vilnius.

### **The Business of the Company**

The Shareholders' Agreement stipulates that the joint stock company RB Rail AS (hereinafter - the Company) was created as a joint venture by Estonia, Latvia and Lithuania to plan, design, construct and market *Rail Baltica*.

In 2016, the Company fulfilled the following strategic milestones to ensure an adequate legal and financial framework for the project's financial flows, as well as to ensure clarity of the responsibility and authority the Company has in procurements relevant to the Global Project. The achievements contribute to project implementation in a timely, efficient and transparent manner and strengthens credibility with the European Innovation and Networks Executive Agency (hereinafter - INEA) partners on project sustainability – including further grant financing stages –to be able to effectively and sustainably acquire Connecting Europe Facility (hereinafter - CEF) financing in full:

#### **a) Inter-Beneficiary Agreement**

On June 16, 2016, the Company together with the Ministry of Economic Affairs and Communications of the Republic of Estonia, the Ministry of Transport of the Republic of Latvia and the Ministry of Transport and Communications of the Republic of Lithuania signed an Inter-Beneficiary Agreement that regulates the responsibilities of each party regarding the management of CEF financing for the project. The Company, as the central coordinator of the CEF financing flow, is the main mediator between INEA and Beneficiaries.

#### **b) Grant Agreements**

*Rail Baltica* is predominantly financed by grants from the European Union which are co-financed by the three Baltic States, based on the CEF grant mechanism. On November 18, 2016, the Company signed Grant Agreement number INEA/CEF/TRAN/M2015/1129482 (hereinafter - Grant Agreement II) under the Connecting Europe Facility / Transport sector, with INEA for the action entitled "Development of a 1435 mm standard gauge railway line in the Rail Baltic/ Rail Baltica (RB) corridor through Estonia, Latvia and Lithuania (Part II)". This agreement is meant to supplement the Grant Agreement number INEA/CEF/TRAN/M2014/1045990 (hereinafter - Grant Agreement I) signed in 2015. The action runs from 16 February 2016 until 31 December 2020. The total value of the Grant Agreement II is 225 million EUR of which the CEF contribution will be of a maximum amount of 191 million EUR which is up to 85% of total eligible costs.

At year-end 2016, the Company has signed Grant Agreements of a total value of eligible costs of 765 million EUR. The CEF contribution will make up to 85% of total eligible costs, contributing to financial support of up to a maximum of 633 million EUR for the implementation of the project.

CEF financing under the Grant Agreements is earmarked for first stage implementation measures towards *Rail Baltica* construction: activities that were started during 2015 and 2016 and will be completed by 2020. The activities encompass preparation for *Rail Baltica* construction and the initiation of the construction phase.

#### **c) Agreement on the Contracting Scheme**

The Agreement on the Contracting Scheme for *Rail Baltica* was signed by the Company, the Beneficiaries and the Implementing bodies on 30 September 2016. The agreement establishes the procurement roles of the Company, the Beneficiaries and the Implementing bodies. Thus, the project's procurement is divided into three groups: RB Rail AS procurement, Consolidated Procurement and Supervised National Procurement. The Company is responsible for the organization of the first two procurement groups while for the last one it has a supervisory role.

#### **d) Strengthened Administrative Capacity**

To establish a transparent and professional Management Board by attracting qualified and experienced professionals and avoiding politicization of management, the Supervisory Board approved recruitment for the Management Board in the Baltic by executive search which commenced at the end of 2016. The Supervisory Board agreed to further the organization of the Company for all three Baltic countries by establishing branches in Tallinn, Estonia, and Vilnius, Lithuania. In 2016, Country Managers for Estonia/Finland, Latvia and Lithuania/Poland were recruited to facilitate better coordination of the project's implementation with the Beneficiaries and the implementing bodies in three Baltic countries as well as to ensure continued dialogue with the relevant authorities in Poland and Finland.

Throughout 2016 the Company focused on key CEF activities such as the preparation of a Cost-Benefit Analysis, project implementation support measures and strategic public relations and branding. After the tenders on a long-term Business Plan and the Design Guidelines for Rail Baltica Railway terminated with no results in the second half of 2016, they will be relaunched in 2017. Following the Grant Agreement commitments, Latvian and Estonian beneficiaries continued their earmarked activities as well.

**Financial Performance and the Financial Position for the Reporting Period**

The reporting period from 1st January 2016 through 31 December 2016 was the Company's second year of operations. During the year, the Share capital was increased by 3 EUR and 1 949 997 EUR as a share premium.

The Company closed the year with a loss of 506 372 EUR increasing the total accrued loss to 1 175 126 EUR.

**The future development of the Company**

In 2017, the Company has identified the following strategic milestones:

- Continue establishing a transparent, resource effective implementation process for the *Rail Baltica* project with a clear governance process that includes mitigating risks pertaining to conflict of interest, while progressing with reaching CEF activities' milestones to demonstrate the project's maturity and to ensure further grant financing;
- Enshrine a common procurement policy, suppliers' guidelines including minimal supplier qualification criteria;
- Deliver common Contract templates prepared for all Project implementers;
- Deliver a clear vision for Rail Baltica's infrastructure management for the operational phase of the railway;
- Continue active dialogue and activity coordination with Poland on Rail Baltica's implementation;
- Strengthen the "One project" brand in three Baltic states;
- Ensure the Company's full administrative capacity: – a professional Management Board acting at full capacity, an approved organization structure with up to 51 employees.

The Company will procure, deliver or initiate studies and design for the project:

- Finalize the project's Cost-Benefit analysis in the first quarter of 2017;
- Complete a "Study on the upgrade of the build European gauge railway section "Polish / Lithuanian state border – Kaunas – RRT Palemonas";
- Complete the Design Guidelines for the entire railway infrastructure;
- Address the business and commercial aspects of the project by delivering a 10-year Business plan study, an Operational plan, a Commercialization plan, a Study on the project's Infrastructure management, Supplier market studies and Studies on spatial planning.

Per Grant Agreements, Lithuanian, Latvian and Estonian beneficiaries will continue to undertake their earmarked national activities as well.

The Management of the Company is in the process of developing financing plan for RB Rail AS. Based on this plan, the Company will charge project beneficiaries for project management services pertaining to the *Rail Baltica* project. The ability to cover incurred losses and cover future expenses will depend on the ability of the company to reach agreement with the project beneficiaries on service charges.

**Financial risk management**

The Company's Risk management policy is disclosed in Note 21.

**Events after the balance sheet date**

Subsequent events are disclosed in Note 22.



Baiba Anda Rubesa

Member of the Management Board

The annual report was approved by the shareholders' meeting on 24 April 2017.

## Statement of comprehensive income

	Notes	01.01.2016- 31.12.2016 EUR	12.11.2014- 31.12.2015 EUR
Net turnover		-	-
Other operating income	6	718 642	38 539
Personnel costs	7	(563 077)	(414 198)
a) remuneration for work		(475 498)	(335 812)
b) mandatory state social insurance contributions		(87 551)	(78 378)
d) other social insurance costs		(28)	(8)
Depreciation	10	(15 851)	-
Other costs of economic activity	8	(646 086)	(293 095)
<b>Loss before corporate income tax</b>		<b>(506 372)</b>	<b>(668 754)</b>
Corporate income tax for the financial year	9	-	-
<b>Loss for the financial year</b>		<b>(506 372)</b>	<b>(668 754)</b>
<b>Other comprehensive income from the year, after tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive loss for the year, after tax</b>		<b>(506 372)</b>	<b>(668 754)</b>

The accompanying notes form an integral part of these financial statements.



Baiba Anda Rubesa  
Member of the Management Board

22 March 2017

## Statement of financial position

		ASSETS		
	Notes	31.12.2016 EUR	31.12.2015 EUR	12.11.2014 EUR
<b>NON-CURRENT ASSETS</b>				
<b>Property, plant and equipment</b>				
Other fixed assets	10	45 907	40 824	-
Construction in progress	11	249 500	74 000	-
<b>TOTAL</b>		<b>295 407</b>	<b>114 824</b>	<b>-</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>295 407</b>	<b>114 824</b>	<b>-</b>
<b>CURRENT ASSETS</b>				
<b>Receivables</b>				
Other receivables	12	88 305	41 476	-
Prepaid expense	13	10 071	15 915	-
<b>TOTAL</b>		<b>98 376</b>	<b>57 391</b>	<b>-</b>
<b>Cash</b>	14	<b>20 923 903</b>	<b>12 635 807</b>	<b>1 950 000</b>
<b>TOTAL CURRENT ASSETS</b>		<b>21 022 279</b>	<b>12 693 198</b>	<b>1 950 000</b>
<b>TOTAL ASSETS</b>		<b>21 317 686</b>	<b>12 808 022</b>	<b>1 950 000</b>

The accompanying notes form an integral part of these financial statements.



Baiba Anda Rubesa  
 Member of the Management Board

22 March 2017



## Statement of financial position

		EQUITY AND LIABILITIES		
	Notes	31.12.2016	31.12.2015	12.11.2014
EQUITY		EUR	EUR	EUR
Share capital	15	1 950 006	1 950 003	1 950 000
Share issue premium	15	3 899 994	1 949 997	-
Retained losses		(668 754)	-	-
Losses for the financial year		(506 372)	(668 754)	-
<b>TOTAL EQUITY</b>		<b>4 674 874</b>	<b>3 231 246</b>	<b>1 950 000</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Deferred revenue	16	149 175	323 594	-
<b>TOTAL</b>		<b>149 175</b>	<b>323 594</b>	<b>-</b>
<b>Current liabilities</b>				
Accounts payable to suppliers and contractors		129 734	96 965	-
Payables to related parties	20	16 118 944	8 371 620	-
Taxes payable	17	-	15 135	-
Other payables	18	2 727	23 429	-
Deferred revenue	16	184 619	718 642	-
Accrued liabilities	19	57 613	27 391	-
<b>TOTAL</b>		<b>16 493 637</b>	<b>9 253 182</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>16 642 812</b>	<b>9 576 776</b>	<b>-</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>21 317 686</b>	<b>12 808 022</b>	<b>1 950 000</b>

The accompanying notes form an integral part of these financial statements.



Baiba Anda Rubesa  
Member of the Management Board

22 March 2017

## Statement of cash flows

	Notes	01.01.2016 - 31.12.2016 EUR	12.11.2014- 31.12.2015 EUR
<b>Cash flows to operating activities</b>			
Loss before tax		(506,372)	(668,754)
Adjustments for:			
Depreciation	10	15,851	-
(Decrease) / increase in deferred revenue		(708,442)	1,042,236
Increase in accrued expense		30,222	27,391
<b>Operating profit or (loss) before working capital changes</b>		<b>(1,168,741)</b>	<b>400,873</b>
(Increase) in receivables		(40,985)	(57,391)
(Decrease) in payables		(94,268)	(1,019,246)
<b>Net cash flows to operating activities</b>		<b>(1,303,994)</b>	<b>(675,764)</b>
<b>Cash flows to investing activities</b>			
Purchase of property, plant and equipment	10, 11	(115,434)	(40,824)
<b>Net cash flows to investing activities</b>		<b>(115,434)</b>	<b>(40,824)</b>
<b>Cash flows from financing activities</b>			
Paid in share capital	15	3	3
Share premium	15	1,949,997	1,949,997
Grants / Pre-financing from INEA attributable to the Company	14	10,200	1,080,775
<b>Net cash flows from financing activities</b>		<b>1,960,200</b>	<b>3,030,775</b>
Change in cash		540,772	2,314,187
Cash at the beginning of the period	14	4,264,187	1,950,000
<b>Cash at the end of the year attributable to the Company</b>		<b>4,804,959</b>	<b>4,264,187</b>
<b>Cash at the end of the year attributable to the other Beneficiaries</b>		<b>16,118,944</b>	<b>8,371,620</b>
<b>Total cash at the end of the year</b>		<b>20,923,903</b>	<b>12,635,807</b>

The accompanying notes form an integral part of these financial statements.

Baiba Anda Rubesa  
Member of the Management Board

22 March 2017

## Statement of changes in equity

	Share capital	Share premium	Retained losses	Loss for the period	Total
<b>Balance as at 12 November 2014</b>	-	-	-	-	-
(Loss) for the reporting year	-	-	-	(668 754)	(668 754)
Total comprehensive loss	-	-	-	(668 754)	(668 754)
Issue of share capital	1 950 003	1 949 997	-	-	3 900 000
<b>Balance as at 31 December 2015</b>	<b>1 950 003</b>	<b>1 949 997</b>	<b>-</b>	<b>(668 754)</b>	<b>3 231 246</b>
(Loss) for the reporting year	-	-	-	(506 372)	(506 372)
Total comprehensive loss	-	-	-	(506 372)	(506 372)
Issue of share capital	3	1 949 997	(668 754)	668 754	1 950 000
<b>Balance as at 31 December 2016</b>	<b>1 950 006</b>	<b>3 899 994</b>	<b>(668 754)</b>	<b>(506 372)</b>	<b>4 674 874</b>

The accompanying notes form an integral part of these financial statements.



Baiba Anda Rubesa  
Member of the Management Board

22 March 2017

## Notes to the financial statements

### 1. Corporate information

RB Rail AS (hereinafter – the Company) was registered with the Republic of Latvia Enterprise Register on 12 November 2014. The registered office of the Company is at Gogola iela 3, Riga, the visiting Office is at Valdemara iela 21, Riga. The shareholders of the Company are Rail Baltic Estonia OÜ, Eiropas dzelzceļa līnijas SIA and Rail Baltica statyba UAB.

The core business activity of the Company is to design, construct and market *Rail Baltica* railway line.

The financial statements of the Company for the period from 1 January 2016 through 31 December 2016 were approved by a resolution of the Company's shareholders on 24 April 2017.

### 2. Summary of significant accounting policies

#### **Basis of preparation**

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter - EU). For all periods up to and including the year ended 31 December 2015, the Company prepared its financial statements in accordance with local generally accepted accounting principles (Latvian GAAP). These financial statements for the year ended 31 December 2016 are the first the Company has prepared in accordance with IFRS. Refer to Note 4 for information on how the Company adopted IFRS.

The financial statements have been prepared on a historical cost basis. The monetary unit used in the financial statements is *euro* (hereinafter - EUR), the monetary unit of the Republic of Latvia.

Cash flow statement is prepared using indirect cash flow method.

Current reporting period and previous reporting period are not fully comparable on the statement of comprehensive income, statement of cash flow and statement of changes in equity, because the current reporting period includes 12 months, but previous reporting period included 13.5 months.

#### **Current versus non-current classification**

The Company presents assets and liabilities in the statement of financial position based on current / non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

## 2. Summary of significant accounting policies (cont'd)

### ***Fair value measurement***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

### ***Use of estimates***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

### ***Other operating income***

The following specific recognition criteria must be met before income is recognised:

#### ***Income from CEF co-financing***

Income from CEF co-financing is recognized when direct eligible costs are incurred, applying CEF co-financing rate in the grant agreement:

INEA/CEF/TRAN/M2014/1045990	- 85 %
INEA/CEF/TRAN/M2015/1129482	- 85%

## **2. Summary of significant accounting policies (cont'd)**

### ***Corporate income tax***

Corporate income tax includes current and deferred taxes. Current corporate income tax is applied at the rate of 15% on taxable income generated by the Company during the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the Company's non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as tax losses carried forward for the subsequent years. Where and overall deferred taxation asset arises, it is only recognized in the financial statements where its recoverability is foreseen with reasonable certainty.

### ***Property, plant and equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Other fixed assets	- 3 years
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Depreciation is calculated starting with the following month after the asset is put into operation or engaged in commercial activity. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Company depreciates separately some parts of plant, property and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of an asset's net selling price and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the statement of comprehensive income in the decrease in value adjustments caption.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the depreciation caption.

### ***Construction in progress***

Construction in progress consists of costs of study type of activities of *Rail Baltica* project. It is expected that these costs will form part of the total railway infrastructure cost when the construction project is complete, at which point the Company shall either continue the railway network development and administration activity or be liquidated according to the Shareholders' Agreement.

### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (hereinafter - EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

## **2. Summary of significant accounting policies (cont'd)**

### **Cash**

Cash comprises balances of current accounts with banks.

### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

### **Contingencies**

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

### **Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Grants received from the European Union for the purchase, development or construction of non-current assets are initially recognised as deferred income and taken to the statement of comprehensive income on a systematic basis over the useful life of the relevant non-current assets. Other government grants are recognised as income on a systematic basis over the period when the Company expenses the costs that the grants compensate. A government grant that becomes receivable as compensation for expenses already incurred is recognised as income of the period in which it becomes receivable.

### **Subsequent events**

Post-period-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

## **3. Adoption of new IFRS and IFRIC interpretations**

### **Standards issued but not yet effective**

The Company has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

#### **IFRS 9 *Financial Instruments*** (effective for financial years beginning on or after 01.01.2018)

IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Company has not yet evaluated the impact of the implementation of this standard.

#### **IFRS 15 *Revenue from Contracts with Customers*** (effective for financial years beginning on or after 1 January 2018)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Company has not yet evaluated the impact of the implementation of this standard.

### 3. Adoption of new IFRS and IFRIC interpretations (cont'd)

**IFRS 15: Revenue from Contracts with Customers (Clarifications)** (effective for annual periods beginning on or after 1 January 2018, once endorsed by the EU).

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Company has not yet evaluated the impact of the implementation of this standard.

**IFRS 16 Leases** (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The Company has not yet evaluated the impact of the implementation of this standard.

**Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative** (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Company but may result in changes in disclosures.

**Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses** (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Company has not yet evaluated the impact of the implementation of this standard.

**IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)** (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company has not yet evaluated the impact of the implementation of this standard.

**Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** (In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Company has not yet evaluated the impact of the implementation of this standard.

**Amendments to IAS 40: Transfers to Investment Property** (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Company has not yet evaluated the impact of the implementation of this standard.



### 3. Adoption of new IFRS and IFRIC interpretations (cont'd)

**IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration** (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Company has not yet evaluated the impact of the implementation of this standard.

The IASB has issued the **Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The Company has not yet evaluated the impact of the implementation of this standard.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- **IFRS 12 Disclosure of Interests in Other Entities:** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

The Company plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

### 4. First-time adoption of IFRS

These financial statements, for the year ended 31 December 2016, are the first the Company has prepared in accordance with IFRS. For year ended 31 December 2015, the Company prepared its financial statements in accordance with with Latvian generally accepted accounting principle (Latvian GAAP). Accordingly, the Company has prepared financial statements that comply with IFRS applicable as at 31 December 2016, together with the comparative period data for the year ended 31 December 2015, as described in the summary of significant accounting policies. In preparing the financial statements, the Company's opening statement of financial position was prepared as at 12 November 2014, the Company's date of transition to IFRS. There are no adjustments made by the Company in restating its Latvian GAAP financial statements, including the statement of financial position as at 12 November 2014 and the financial statements for the year ended 31 December 2015. Therefore, the Company has not presented the reconciliation of equity as at 12 November 2014 and 31 December 2015 and reconciliation of total comprehensive income for 12 November 2014 – 31 December 2015 between local GAAP and IFRS, as required by IFRS 1. The first time adoption of IFRS has no effect on equity and total assets.

The estimates at 12 November 2014 and at 31 December 2015 are consistent with those made for the same dates in accordance with Latvian GAAP.

### 5. Use of significant accounting judgments and estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies.

## **5. Use of significant accounting judgments and estimates (cont'd)**

### *Construction in progress*

The significant areas of judgment used in the preparation of these financial statements are related to recognition of construction in progress. Costs of studies, such as Cost Benefit Analysis study or Contracting Scheme study of *Rail Baltica* project are capitalized based on the assumption that these studies are integral part of the future cash-generating project.

The Shareholders' agreement stipulates that, after completion of the railway infrastructure construction, the Company shall either continue the railway network development and administration activity, or be liquidated, by unanimous decision of the Shareholders. At the time of preparation of these financial statements there is no shareholders' decision on the above matter, preventing management of the Company from assessing recoverability of the value of construction in progress.

### *The carrying amounts of property, plant and equipment*

The Company's management reviews the carrying amounts of property, plant and equipment and assesses whenever indications exist that the assets' recoverable amounts are lower than their carrying amounts. Taking into consideration the Company's planned level of activities and the estimated total value of *Rail Baltica* project, the Company's management considers that no significant adjustments to the carrying values of property, plant and equipment are necessary as of 31 December 2016.

### *Recognition of CEF advances*

According to the Grant agreement, the Company is responsible for payment requests on behalf of all Beneficiaries of the whole *Rail Baltica* project. After receipt of the funding (either advances or final payments), the Company is responsible for transferring the funds without undue delay.

According to Section II.3.1. of the Grant Agreements "Liability for damages", the Company shall not be held liable for any damage caused or sustained by any of the beneficiaries and the beneficiaries shall compensate the agency for any damage sustained by it as a result of the implementation of the project or because the implementation of the project or because project was not implemented or implemented poorly, partially or late.

### *Cost eligibility and deferred income*

Cost eligibility of the Company is based on Eligibility Policy, as adopted in the Supervisory board on 13 December 2016 and Eligibility guidelines ("Travel", "Services and works", "Staff costs") as adopted by the Management board on 6 February 2017.

Deferred income is recognised when funds from European Union are received as direct pre-financing payments. Deferred income is recognised in accordance with IAS 20 Grants. Deferred income is classified as non-current deferred income when financing will be used for acquisition of non-current assets, or financing will be used during a period longer than one year.

### *Recoverability of deferred tax asset*

The Company assesses the extent of taxable profits during the period of utilisation of tax losses. At each reporting date, the Company's management analyses the recoverability of deferred tax and reduces the deferred tax asset if it is no longer probable that during the period of utilisation of tax losses future taxable profits will be available against which unused tax losses can be utilised. Description about the amount of deferred tax asset and the reasons for not recognizing, are summarised in Note 9.

### *Going concern*

During the preparation of these financial statements the management of the Company has assessed ability of the Company to continue its operations at least for one year after 31.12.2016.

## 6. Other operating income

	01.01.2016- 31.12.2016 EUR	12.11.2014- 31.12.2015 EUR
Income from CEF Grant recognition	718 642	38 539
<b>TOTAL:</b>	<b>718 642</b>	<b>38 539</b>

Along with the progress of *Rail Baltica* project, assumptions on eligible expenses have further evolved in 2016. As the main task of the Company, as set by shareholders, is to design, construct and market *Rail Baltica*, all Company's expenses are regarded as fully CEF eligible (hereinafter – full eligibility), with exception of certain type of expenses of clearly administrative nature, which are specifically referred to in the CEF Grant Agreements as non-eligible.

During 2015 the Company followed a more conservative CEF eligibility determination approach, therefore the recognized grant income is not fully comparable between the years.

In 2016 income from CEF grants was recognized in amount of 85% from eligible expenses incurred during the reporting year (2015: 85%).

## 7. Personnel costs

	01.01.2016- 31.12.2016 EUR	12.11.2014- 31.12.2015 EUR
<b>a) Remuneration for work</b>		
Supervisory Board members	186 363	219 696
Management Board members	94 614	78 301
Other employees	194 521	37 815
<b>TOTAL:</b>	<b>475 498</b>	<b>335 812</b>
<b>b) Mandatory state social insurance contributions</b>		
Supervisory Board members	25 043	51 495
Management Board members	16 621	18 302
Other employees	45 887	8 581
<b>TOTAL:</b>	<b>87 551</b>	<b>78 378</b>
<b>c) Other social insurance costs</b>		
Entrepreneurship state risk duty	28	8
<b>TOTAL:</b>	<b>28</b>	<b>8</b>

At the end of financial year 2016 the Company employed 17 employees and had 6 Supervisory Board members (2015: 3 and 6 respectively). The average number of employees during the reporting year was 12 (2015: 3).

**8. Other costs of economic activity**

	01.01.2016- 31.12.2016 EUR	12.11.2014- 31.12.2015 EUR
Professional service fees	300 953	92 259
Travel costs	86 785	31 019
Public relations and communication	83 471	34 751
Office rent and maintenance expense	52 971	5 802
Recruitment and trainings	38 325	37 009
Other project implementation support measures	83 581	92 255
<b>TOTAL:</b>	<b>646 086</b>	<b>293 095</b>

**9. Corporate income tax**

	01.01.2016- 31.12.2016 EUR	12.11.2014- 31.12.2015 EUR
Current corporate income tax charge for the reporting year	-	-
Deferred tax change	-	-
<b>Total corporate income tax expense:</b>	<b>-</b>	<b>-</b>

Deferred tax:

	31.12.2016 EUR	31.12.2015 EUR	12.11.2014 EUR
<b>Deferred tax liability, 15%</b>			
Temporary differences in the carrying amounts of non-current assets for accounting and taxation purposes	2 090	-	-
<b>Gross deferred tax liability</b>	<b>2 090</b>	<b>-</b>	<b>-</b>
<b>Deferred tax asset, 15%</b>			
Tax loss carried forward*	(177 227)	(99 664)	-
Unused vacation accrual	-	(406)	-
<b>Gross deferred tax asset</b>	<b>(177 227)</b>	<b>(100 070)</b>	<b>-</b>
<b>Unrecognised deferred tax asset</b>	<b>(175 137)</b>	<b>(100 070)</b>	<b>-</b>
<b>Net deferred tax asset</b>	<b>-</b>	<b>-</b>	<b>-</b>

\*Tax losses incurred in 12.11.2014 - 31.12.2015 and 01.01.2016 - 31.12.2016 can be carried forward and set off against any profit of future periods without any time limitation according to the law "On Corporate Income Tax".

## 9. Corporate income tax (cont'd)

Deferred tax is calculated by applying the current enacted tax rate of 15%.

The Company's management believes that agreement between the Shareholders on income generation shall be reached by 2018. Therefore, deferred tax assets may be utilized when future taxable profit shall be generated. As at the reporting year end Company's management has not recognized deferred tax asset as its recoverability cannot be assessed with reasonable certainty.

Corporate income tax:

	01.01.2016- 31.12.2016 EUR	12.11.2014- 31.12.2015 EUR
(Loss) before tax	(506 372)	(668 754)
Tax at the applicable tax rate of 15%	(75 956)	(100 313)
Tax adjustments for:		
Non-deductible amounts	889	243
Deferred corporate income tax asset not recognised in the reporting year	75 067	100 070
<b>Current corporate income tax for the reporting year:</b>	-	-
<b>Accumulated tax losses:</b>	<b>1 181 516</b>	<b>664 426</b>

## 10. Other fixed assets

	Other fixed assets	TOTAL
Carrying amount as at 12 November 2014	-	-
Additions 12.11.2014-31.12.2015	40 824	40 824
Depreciation charge 12.11.2014.-31.12.2015	-	-
Carrying amount as at 31 December 2015	40 824	40 824
Additions 2016	20 934	20 934
Depreciation charge 2016	(15 851)	(15 851)
Carrying amount as at 31 December 2016	45 907	45 907

All Company's fixed assets are financed from CEF grants. Company claims asset acquisition costs as eligible according to the Grant Agreements, clause II.19.2. Depreciation of assets is included as eligible cost in these financial statements. Grant income from CEF co-financing has been recognized accordingly in amount of 85% of the depreciation charge, 13 473 EUR in 2016 (2015: 0).

## 11. Construction in progress

	31.12.2016 EUR	31.12.2015 EUR
Construction in progress	249 500	74 000
<b>TOTAL:</b>	<b>249 500</b>	<b>74 000</b>

Construction in progress includes studies for *Rail Baltica* project planning recognized at cost.

## 12. Other receivables

	31.12.2016 EUR	31.12.2015 EUR
Value added tax receivable (See Note 17)	84 437	37 934
Security deposit for office rent	3 543	3 542
Personal income tax (See Note 17)	325	-
<b>TOTAL:</b>	<b>88 305</b>	<b>41 476</b>

Taking into account that the Company has incurred input VAT in the preparatory stages of its operations, including expenses for studies related to planning of *Rail Baltica* project, the Company has the right to perform full input VAT deduction as the input VAT incurred has a direct link with the future operations of the Company, described in clause 2.2 of the Shareholders' Agreement as continuing the railway network development and administration activity after completion of its construction. During 2016 input VAT in the amount of 83 093 EUR (2015: 0) was received on the Company's bank account according the standard input VAT refund process.

## 13. Prepaid expense

	31.12.2016 EUR	31.12.2015 EUR
Insurance	8 703	1 667
Advances to employees	1 368	-
Advances to suppliers	-	13 500
Travel expense	-	748
<b>TOTAL:</b>	<b>10 071</b>	<b>15 915</b>

## 14. Cash

	31.12.2016 EUR	31.12.2015 EUR
CEF financing account	16 129 134	9 452 395
Company's operational account	4 794 769	3 183 412
<b>TOTAL:</b>	<b>20 923 903</b>	<b>12 635 807</b>

The bank account designated for CEF financing contains restricted cash attributable to the Company and the other Beneficiaries of the Project. According to the Inter-Beneficiary Agreement, RB Rail AS as the Coordinator of the Grant must distribute the CEF pre-financing to the other Beneficiaries without undue delay. Direct pre-financing payments are distributed between the Beneficiaries in proportion to each Beneficiaries' planned eligible costs according to indicative budget in the Grant Agreement and forecast activities in next year.

#### 14. Cash (cont'd)

##### CEF financing attributable to the other Beneficiaries.

	31.12.2016 EUR	31.12.2015 EUR
Ministry of Transport and Communications of the Republic of Lithuania	11 562 797	-
Ministry of Economic Affairs and Communication of the Republic of Estonia	4 359 042	7 123 650
Ministry of Transport of the Republic of Latvia	197 105	1 247 970
RB Rail AS	10 190	1 080 775
<b>TOTAL:</b>	<b>16 129 134</b>	<b>9 452 395</b>
Attributable to the Company (see also Note 16):	10 190	1 080 775
Attributable to the other Beneficiaries (see also Note 20):	16 118 944	8 371 620

#### 15. Share capital

As at 31 December 2016 the share capital of the Company is 1 950 006 EUR (31.12.2015: 1 950 003 EUR) and consists of 1 950 006 shares. The share capital is fully paid up. The par value of each share is 1 EUR. As at 31 December 2016, the share premium amounted to 3 899 994 EUR (31.12.2015: 1 949 997 EUR).

As at 31 December 2016, the shares were distributed as follows:

	%	Number of shares	Share premium
Rail Baltic Estonia OU	33.33	650 002	1 299 998
Eiropas dzelzceļa līnijas SIA	33.33	650 002	1 299 998
Rail Baltica statyba UAB	33.33	650 002	1 299 998
<b>TOTAL:</b>	<b>100</b>	<b>1 950 006</b>	<b>3 899 994</b>

#### 16. Deferred revenue

On 24 November 2015 the Company has concluded a Grant Agreement number INEA/CEF/TRAN/M2014/1045990 (hereinafter the Grant Agreement I) under the Connecting Europe Facility (hereinafter CEF), Transport sector, with the European Innovation and Networks Executive Agency (hereinafter INEA) for the action entitled "Development of a 1435 mm standard gauge railway line in the Rail Baltica corridor through Estonia, Latvia and Lithuania". The action runs from 1 March 2015 until 31 December 2020. The grant for the action is a maximum amount of 442.2 million EUR, and total estimated eligible costs are 540.4 million EUR.

On November 18, 2016, the Company signed a Grant Agreement (number INEA/CEF/TRAN/M2015/1129482; further Grant Agreement II) under the Connecting Europe Facility/Transport sector, with INEA for the action entitled "Development of a 1435 mm standard gauge railway line in the Rail Baltica (RB) corridor through Estonia, Latvia and Lithuania (Part II)". This agreement is meant to supplement the Grant Agreement (number INEA/CEF/TRAN/M2014/1045990; further - Grant Agreement I) signed in 2015. The action runs from 16 February 2016 until 31 December 2020. The grant for the action is a maximum amount of 225 million EUR, and total estimated eligible costs are 191 million EUR.

Non-current and current deferred income comprises the balance of the direct pre-financing payment received and allocated to RB Rail AS as the beneficiary, proportionate to the expected direct eligible expenses to be incurred according to both Grant Agreements as well as progress of the action in 2016.

## 16. Deferred revenue (cont'd)

The CEF financing under both Grant Agreements is eligible for implementation of the first stage of Rail Baltica construction: activities that were started during 2015 and will be completed till 2020: preparation for Rail Baltica construction and initiation of construction phase.

	01.01.2016- 31.12.2016 EUR	12.11.2014- 31.12.2015 EUR
Balance at the beginning of the year	1 042 236	-
Pre-financing grant payments received (see Note 14)	10 200	1 080 775
Taken to income (See Note 6)	(718 642)	(38 539)
<b>Balance at the end of the year</b>	<b>333 794</b>	<b>1 042 236</b>

Non-current and current deferred income comprises the grant pre-financing payment received, considering the expected gradual recognition of the grants as income based on the forecast timing of activities:

	31.12.2016 EUR	31.12.2015 EUR
Non-current portion of deferred income (between 1 and 5 years)	149 175	323 594
Current portion of deferred income (within one year)	184 619	718 642
<b>TOTAL:</b>	<b>333 794</b>	<b>1 042 236</b>

Dedicated bank account is used to account for CEF co-financing direct payments (see note 14).



## 17. Taxes payable

	31.12.2016 EUR	31.12.2015 EUR
Mandatory state social insurance contributions- Latvia	-	(6 730)
Statutory social insurance contributions - Estonia	-	(1 925)
Personal income tax	325	(6 479)
Risk duty	-	(1)
Value added tax	84 437	37 934
<b>TOTAL:</b>	<b>84 762</b>	<b>22 799</b>
<b>TOTAL LIABILITY:</b>	<b>-</b>	<b>(15 135)</b>
<b>TOTAL OVERPAYMENT (See note 12):</b>	<b>84 762</b>	<b>37 934</b>

## 18. Other payables

	31.12.2016 EUR	31.12.2015 EUR
Other liabilities	2 727	1 421
Remuneration to employees	-	21 580
Advances to employees	-	428
<b>TOTAL:</b>	<b>2 727</b>	<b>23 429</b>

## 19. Accrued liabilities

	31.12.2016 EUR	31.12.2015 EUR
Accrued liabilities for professional services	31 398	12 020
Accrued liabilities for unused vacations	15 512	2 705
Accrued liabilities for audit services	10 400	4 900
Accrued liabilities for travel expense	-	7 691
Other accrued liabilities	303	75
<b>TOTAL:</b>	<b>57 613</b>	<b>27 391</b>

## 20. Related party disclosures

Related parties are defined as shareholders that have the ability to control the Company or exercise significant influence over the Company in making financial and operating decisions, members of the key management personnel of the Company or its shareholders, and close members of the families of any individual referred to previously, and entities over which these persons exercise significant influence or control.

The Company is a joint venture by Rail Baltic Estonia OÜ, Eiropas dzelzcela linijas SIA and Rail Baltica statyba UAB, each of them owning 33.33% of the Company's shares. The Estonian and Latvian shareholders have been established by the respective ministry in each country, whereas Rail Baltica statyba UAB has been established by AB Lietuvos gelezinkeliai, which is controlled by the Government of Lithuania.

## 20. Related party disclosures (cont'd)

### *Terms and conditions of transactions with related parties*

In 2016 the Company received travel expense cost compensation claim from its shareholder Rail Baltic Estonia OÜ in amount of 7 691 EUR. As the Coordinator of the project the Company receives CEF pre-financing from INEA and distributes it to the other Beneficiaries according to the Inter-Beneficiary agreement.

### **Payables to related parties for direct pre-financing received:**

	31.12.2016 EUR	31.12.2015 EUR
Ministry of Transport and Communications of the Republic of Lithuania	11 562 797	-
Ministry of Economic Affairs and Communication of the Republic of Estonia	4 359 042	7 123 650
Ministry of Transport of the Republic of Latvia	197 105	1 247 970
<b>TOTAL:</b>	<b>16 118 944</b>	<b>8 371 620</b>

See also note 14 on restricted cash CEF pre-financing account. There were no other transactions with related parties during the current period and previous reporting period.

## 21. Financial and operational risks

The main financial risks arising from the Company's financial instruments are liquidity risk and credit risk.

### *Liquidity risk*

The Company manages its liquidity risk by arranging adequate amount of Shareholder's financing and applying for CEF pre-financing payments, planning of payment terms for trade payables, developing and analyzing future cash flows, as well as consolidated cash flows for the Project.

According to the Inter-Beneficiary Agreement, RB Rail AS as the Coordinator of the Grant has an obligation to distribute CEF financing received on the designated bank account to the other Beneficiaries without undue delay. On 31 December 2016 the cash balance on CEF financing account attributable to other Beneficiaries was 16 118 944 EUR (see Note 14). The Company treated this cash balance as fully restricted for its designated purpose, and it was duly distributed on 3 March 2017 after completing the regular control procedures.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted payments.

	31.12.2016 EUR	31.12.2015 EUR
Payable:		
Less than 3 months	129 734	96 965
Within 3 months to other beneficiaries	16 118 944	-
Within 12 months to other beneficiaries	-	8 371 620
<b>TOTAL:</b>	<b>16 248 678</b>	<b>8 468 585</b>

For 2018 and going forward, the Management of the company is in the process of developing financing plan for RB Rail. Based on this plan, the Company will charge project beneficiaries for the project management services within Rail Baltica project. The operations of company will depend on the ability of the Management to reach agreements on service charges. Based on current cash-flow forecasts cash inflows will be required in January 2018.

## 21. Financial and operational risks cont'd)

### *Credit risk*

The Company is exposed to credit risk through its other receivables and cash. The main component of other receivables is the reclaimable VAT. The Company is performing the standard VAT recovery process. During 2016 the Company maintained the same level of VAT recoverability as in previous reporting period, recovering all the input VAT reported.

### *Capital management*

During annual budget forecasting process, the management controls capital using the equity/ assets ratio as following:

	31.12.2016 EUR	31.12.2015 EUR
Equity	4 674 874	3 231 246
Total assets	21 317 685	12 808 022
Restricted cash CEF pre-financing (see note 14)	(16 118 944)	(8 371 620)
Total assets, net	5 198 741	4 436 402
<b>Equity to total assets</b>	<b>90%</b>	<b>73%</b>

The existing equity level is sufficient to finance year 2017 operations. Please see also note 23.

### *Fair value*

The fair value of the assets and liabilities represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- The fair value of cash, other receivables, trade payables and other current liabilities approximates to their carrying amount largely due to the short-term maturities of these instruments.

The main operational risk is Eligibility risk arising from the nature of Company implementing project with European Union co-financing.

### *Eligibility risk*

The Company is exposed to eligibility risk through assigning European Union co-financing for Rail Baltica project implementation. Based on the provisions of the Inter-beneficiary agreement, each party shall be liable for its own actions or omissions which are in breach of the grant agreement. However, based on the provisions of grant agreements, RB Rail AS as the project Coordinator has assumed liability to repay INEA amounts, even if it has not been the final recipient of the amounts due. The Company manages its Eligibility risk through developing Eligibility Policy and Guidelines, and implementing internal control systems to ensure that eligibility compliance conditions are embedded in its operations.

## 22. Subsequent events

On 02.02.2017 the Company applied to INEA for further CEF financing in amount of 376 million EUR. Together with EU member state co-financing the total project estimate amounts to 587 million EUR.

On 03.03.2017 the Company distributed CEF prefinancing in amount of 16 118 944 EUR to the other Beneficiaries according to the pre-financing disbursement memo.

On 10.03.2017 Company received the VAT refund in amount of 84 762 EUR.

As of the last day of the reporting year until the date of signing these financial statements, there have been no other events that could produce a substantial impact on the results of the year.

### 23. Going concern

The financial statements have been prepared based on the going concern assumption. Currently the Company is financed from shareholders equity and advances received based on the signed grant agreements for activities specifically earmarked for RB Rail AS. The Company closed the year with a loss of 506 372 EUR increasing the total accrued loss to 1 175 126 EUR.

Based on the obligations in the grant agreements and key goals of the Company, Management plans to significantly increase capacity in 2017 requiring additional resources. Budget for 2017 has been prepared accordingly, and will be submitted for approval on 30 March 2017.

As of 31 December 2016, the Company had 4 796 769 EUR in the operational cash account. In 2017, the company expects to receive additional 1 950 000 EUR cash injection from shareholders based on the provisions of the shareholder agreement. This liquidity will be sufficient to cover company's expense in 2017 based on the approved budget. It is expected that no additional sources of financing will be available.

For 2018 and going forward, the Management of the company is in the process of developing financing plan for RB Rail AS. Based on this plan, the Company will charge project beneficiaries for the project management services within *Rail Baltica* project. The operations of company will depend on the ability of the Management to reach agreements on service charges. Based on current cash-flow forecasts cash inflows will be required in January 2018.

As of 31 December 2016 some activities under the CEF grant agreements have been delayed for approximately one year on average. If the delayed activities are not completed in the period set out in the grant agreements – until 31.12.2020, a part of financing received under the grant agreements may become ineligible and repayable. Management of the company is monitoring this risk, and will report delays in Annual Activity Status Report to be submitted to INEA by 31 March 2017.

## INDEPENDENT AUDITORS' REPORT

To the shareholders of RB Rail AS

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### *Our Qualified Opinion on the Financial Statements*

We have audited the accompanying financial statements of RB Rail AS ("the Company") set out on pages 7 to 28 of the accompanying annual report, which comprise:

- statement of financial position as at 31 December, 2016,
- statement of comprehensive income for the year then ended,
- statement of changes in equity for the year then ended,
- statement of cash flows for the year then ended, and
- notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of RB Rail AS as at 31 December 2016, 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 (IFRS).

### *Basis for Qualified Opinion*

As disclosed in Notes 5 (construction in progress section) and 11, as at 31 December 2016 the Company's non-current assets include construction in progress in the amount of EUR 249 500. After completion of the railway infrastructure construction, the Company shall either continue the railway network development and administration activity, or be liquidated, based on decision of its shareholders, which at the date of signing these financial statements is not yet taken. Therefore we were unable to obtain sufficient and appropriate audit evidence to assess the recoverable value of these assets and to determine whether any impairment adjustments are necessary. Consequently, we do not express our opinion on the value of the mentioned assets as at 31 December 2016.

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report.

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 independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.

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

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 23 of the financial statements, which discloses that some activities under the CEF grant agreement have been delayed for approximately one year that may indicate on the Company's inability to meet the ultimate deadline for activities defined in the CEF grant agreements (31 December 2020). As a result, funds received under the grant agreement may become ineligible and repayable.

As further disclosed in Notes 21 and 23, based on the current budget the financing available to the Company will be sufficient to cover Company's expenditures till the end of 2017 and it is not expected that additional financing will be available for the Company from its shareholders. Currently the Management are in the process of developing the Company's financing plan. Based on the draft plan, the Company would charge Rail Baltica project beneficiaries, who are also shareholders of the Company, for the project coordination services, however as at the date of signing these financial statements such an arrangement has not yet been agreed among the parties and no contracts have been signed.

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## INDEPENDENT AUDITORS' REPORT (continued)

### *Material Uncertainty Related to Going Concern (continued)*

Accordingly, the Company's ability to continue as a going concern depends on the Management's ability to ensure continued financial support from the Company's shareholders in the form of charges for the project coordination services or other form of financial support, as well as ability to meet the ultimate deadline for activities defined in the CEF grant agreements or extension of the mentioned deadline.

These events indicate that a material uncertainty exists that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Reporting on Other Information*

The Company management is responsible for the other information. The other information is the Management Report, as set out on pages 5-6 of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

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

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

### *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia*

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

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

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

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs 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.

## INDEPENDENT AUDITORS' REPORT (continued)

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### *Auditors' Responsibility for the Audit of the Financial Statements*

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

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

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

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

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Jelena Mihejenkova  
Board member  
Certified auditor  
Certificate No 166

Rīga, Latvia  
22 March 2017

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