

**JOINT STOCK COMPANY RB RAIL**  
**(UNIFIED REGISTRATION NUMBER 40103845025)**

**ANNUAL REPORT**  
**FOR THE YEAR ENDING 31.12.2019**  
(5<sup>th</sup> financial year)

**PREPARED IN ACCORDANCE WITH**  
**THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL FINANCIAL REPORTS AND**  
**CONSOLIDATED FINANCIAL REPORTS**  
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

**Riga, 2020**

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## 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, K. Valdemara iela 8-7 LV-1050, Latvia
Shareholders	Rail Baltic Estonia OÜ (33.33%) Registration No. 12734109 Endla 16, Tallinn 10142, Estonia  Eiropas dzelzcela linijas SIA (33.33%) Registration No. 40103836785 Gogola street 3, Riga, LV-1050, Latvia  <i>Rail Baltica</i> statyba UAB (33.33%) Registration No. 303227458 Mindaugo street 12, Vilnius, LT-03225, Lithuania
Branches	RB Rail AS Lietuvos filialas, Reg. No. 304430116 Gedimino pr. 20, Vilnius, Lithuania  RB Rail AS Eesti filial, Reg. No. 14168654 Endla 16, Tallinn 10142, Estonia
Type of operations	To design, construct and market (including branding) <i>Rail Baltica</i> railway line
NACE code	42.12 Construction of railways and underground railways
Reporting year	1 January 2019 – 31 December 2019
Previous reporting year	1 January 2018 – 31 December 2018
Chief Accountant	Anita Pūka

Auditor and certified auditor name and address Deloitte Audits Latvia SIA  
Grēdu iela 4A  
Riga, LV-1019  
Latvia

Certified auditor in charge:  
Elīna Sedliņa  
Certificate No. 179

## Information about the company's management

### Members of the Management Board

Name	Position	Elected	Released
Agnis Driksna	Chairperson of the Management Board	02.12.2019	-
Timo Riihimäki	Chairperson of the Management Board	11.03.2019	01.12.2019
Ignas Degutis	Member of the Management Board	11.03.2019	-
Ignas Degutis	Chairperson of the Management Board	28.09.2018	10.03.2019
Mart Nielsen	Member of the Management Board	19.03.2018	23.12.2019
Kaspars Rokens	Member of the Management Board	24.04.2017	10.04.2019
Kaido Zimmermann	Member of the Management Board	24.12.2019	-
Mark Stephen Loader	Member of the Management Board	01.02.2020	-

### Members of the Supervisory Board

Name	Position	Elected	Released
Anrī Leimanis	Chairman of the Supervisory Board	31.12.2019	-
Anrī Leimanis	Deputy Chairman of the Supervisory Board	04.06.2019	30.12.2019
Anrī Leimanis	Member of the Supervisory Board	31.05.2019	03.06.2019
Karolis Sankovski	Deputy Chairman of the Supervisory Board	31.12.2019	-

Members of the Supervisory Board (cont'd)

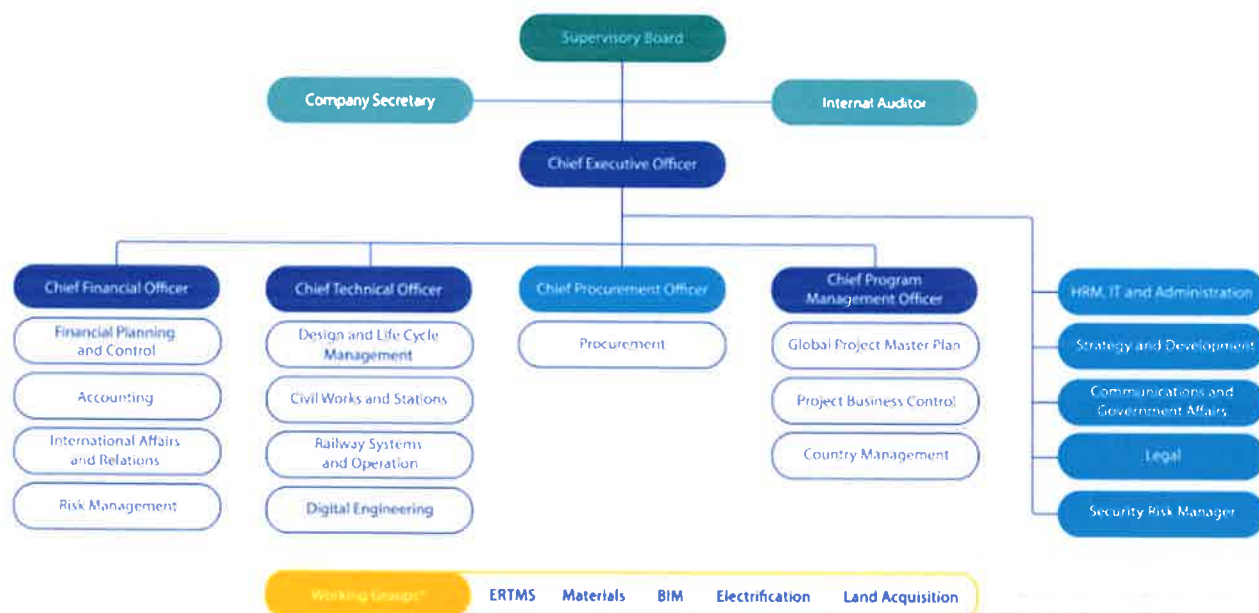
Karolis Sankovski	Chairman of the Supervisory Board	04.06.2019	30.12.2019
Karolis Sankovski	Member of the Supervisory Board	31.05.2019	03.06.2019
Karolis Sankovski	Chairman of the Supervisory Board	10.01.2019	30.05.2019
Karolis Sankovski	Deputy Chairman of the Supervisory Board	19.01.2018	09.01.2019
Riia Sillave	Deputy chairperson of the Supervisory Board	04.06.2019	14.10.2019
Riia Sillave	Member of the Supervisory Board	31.05.2019	03.06.2019
Riia Sillave	Deputy chairperson of the Supervisory Board	10.01.2019	30.05.2019
Riia Sillave	Chairperson of the Supervisory Board	18.01.2018	09.01.2019
Ligita Austrupe	Member of the Supervisory Board	31.05.2019	-
Romas Švedas	Member of the Supervisory Board	31.07.2018	-
Ahti Kuningas	Deputy Chairman of the Supervisory Board	14.10.2019	-
Anti Moppel	Member of the Supervisory Board	15.01.2018	-
Edvīns Bērziņš	Deputy Chairman of the Supervisory Board	19.01.2018	30.05.2019
Vineta Rudzīte	Member of the Supervisory Board	21.10.2016	30.05.2019

## Management report

The Joint Venture of the Baltic States, RB Rail AS (hereinafter – the Company), was established in 2014 to coordinate the implementation of Rail Baltica Global Project. According to the Shareholders' Agreement, RB Rail AS task is to deliver the design, construction and marketing of the railway. RB Rail AS also submits EU financing proposals for the Rail Baltica Global Project on behalf of the national Beneficiaries (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 of the Republic of Lithuania). It also serves as the central purchasing body for all parties for the procurement of studies, plans, designs for the global project, sub-systems (Control, Command, and Signalling and Energy/Electrification), raw materials and key components, and cross-border track sections.

### RB Rail AS Governance

On the Company level, in 2019 Rail Baltica Global Project has firmly entered the design phase. In response to this new chapter in the cycle of the project, the Joint Venture has adjusted the structure by introducing a new management board position – Chief Program Management Officer. With an initial team of ten experts, CPMO will play an important role in the project implementation in all three Baltic States.



In addition to changes in company structure, RB Rail AS Management Board implemented a number of initiatives to further develop corporate governance. This includes the adoption of Whistleblowing Policy to protect the integrity of RB Rail AS operations, Information Security Policy, and Annual Performance Assessment, Goal Setting and Development Plan as well as new document management system.

RB Rail AS team in 2019 grew from 65 people to 91, where 38 persons were hired, and 14 left the Company. By the end of 2019, headcount split between the branches was as follows: 59 in Riga, 20 – Tallinn, 12 – Vilnius. Additional staff members were hired across the whole organisation and locations to deal with increasing workload in the Technical Department, Finance Department and Procurement Department.

## Global Project Governance

At the end of the year the prime ministers of the Baltic States initiated another change process in order to improve the governance structure of the Global Project. For this purpose, the prime ministers are analysing topics related to security, tax solutions, management responsibilities, tender process and ownership structure, which would prepare the Global Project for upcoming large-scale construction works and procurements. With strong backing from the European Commission, changes in the Global Project implementation are expected to take place in 2020.

## Financing Rail Baltica Global Project

In December 2019, after a year-long negotiation between the Beneficiaries, the Joint Venture of the Baltic States and the European Commission have signed the changes in the first Connecting Europe Facility (CEF1) Grant Agreement (No INEA/CEF/TRAN/M2014/1045990) for Rail Baltica. This grant was initially provided in 2015 in the amount of 442 million EUR. Changes in the CEF1 Grant Agreement provide that Baltic States would be eligible to use the funding for additional two years – until the end of 2022. In addition to the extension of the deadline, CEF1 funding was prioritised to finance activities critical for the timely implementation of the Project.

## Rail Baltica Project Progress in 2019



In 2019 the Project has delivered significant and tangible results. It has been a coordinated team effort by all entities involved in the Rail Baltica Project – National Implementing Bodies, Beneficiaries, European Commission, Joint Venture and various suppliers from across Europe. Design works were started on 411 km of the main line. This included signing of six detailed technical design contracts for the main line in 2019 with experienced

international engineering companies, amounting to 58 million EUR. In addition to detailed technical works on the main line, RB Rail AS started the environmental impact assessment process in Estonia.

Implementing Bodies concluded contracts to start design works in the key passenger terminals in Tallinn, Pärnu and a design and build contract for Rīga Central Station. In addition, procurement was launched for the construction works of the Rail Baltica terminal in Rīga International Airport.

Separate construction works on road and railway infrastructure elements were started. In Lithuania construction works are ongoing on 9 km of the track in Kaunas Node. In Estonia a cornerstone of the first construction structure on the Rail Baltica main line in Estonia, the Saustinõmme viaduct, was laid to mark the beginning of Rail Baltica's high-speed rail link with the participation of the Prime Minister of Estonia Jüri Ratas and Henrik Hololei, Director General of the European Commission's Directorate-General for Transport.

Progress was reached within the special planning phase in Lithuania, with land acquisition procedures completed in Kaunas-Lithuanian/Latvian border section and special plan launched for the Vilnius-Kaunas connection.

## **Rail Baltica Common Data Environment**

In order to deploy, implement and maintain Rail Baltica Common Data Environment for building information management system (BIM), RB Rail AS signed a contract with one of the leading global providers of software solutions Bentley Systems International Ltd. With this, Rail Baltica global project is going to deploy and set up a cloud-based Common Data Environment (CDE) to be used during the design, construction and operational phase of the railway line. The five-year contract includes software development, implementation and maintenance as well as license fees and training of users. With the design phase well underway and with works ongoing on 411 km of the main line, the BIM strategy has already been applied, and the designer has already submitted the first value engineering solutions using RB Rail AS proprietary BIM standards.

## **Key Studies**

In 2019 RB Rail AS conducted two fundamental studies, which are the building blocks for successful operation of the railway line. Firstly, **the Rail Baltica Operational Plan** was developed to indicate how the Rail Baltica infrastructure will meet the transport demand in medium and long term, guaranteeing capacity for all types of train services. The Operational Plan is based on consolidated studies of passenger and cargo demand for Rail Baltica corridor and defines timetables and types of trains on the line. In addition, the plan includes benchmarked usable rolling stock, indicative locations of infrastructure and rolling stock maintenance facilities as well as detailed track layouts. The main outputs of the Operational Plan will be used for further phases of studies, including the detailed technical design of Rail Baltica infrastructure. Developed by the German company ETC Gauff Mobility GmbH, in consortium with COWI A/S (Denmark) and Institut für Bahntechnik GmbH (Germany), the plan reflects a modern, integrated approach, where market demand and development is set as the main criteria after which the timetable is defined.

Secondly, **Rail Baltica Infrastructure Management Plan**, provides efficient long-term infrastructure management model, which is critical for Rail Baltica to deliver its business case, financial sustainability and socio-economic benefits to the business communities and the wider public in the Baltic region and beyond. RB Rail AS commissioned an independent study – carried out by WS Atkins, one of world's most respected engineering and infrastructure consultancies – on the Rail Baltica future infrastructure management to serve as a credible source



of information and a tool to promote a diligent and substantiated political decision-making process on Rail Baltica infrastructure management.

Other significant studies were carried out, exploring Air to Rail integration, assessment on climate change impact on Rail Baltica infrastructures as well as a visual identity of key Rail Baltica infrastructure elements. In addition, RB Rail AS assessed the feasibility of Parnu freight terminal in Estonia and evaluated options to improve connectivity between Old City Harbour in Tallinn and the planned Rail Baltica Ülemiste passenger terminal. The aim of the study was to develop the Trans-European Transport Network in the North Sea-Baltic corridor and was co-financed under the Rail Baltica project by the Connecting Europe Facility. Furthermore, a study was conducted to evaluate locally available mineral materials and their quality.

## **Procurements**

In 2019 RB Rail AS concluded 66 procurement contracts with the total value of 64.2 million EUR, including 25 public procurement contracts announced in 2019 and 11 contracts resulting from procurement procedures published in 2018 which were completed in 2019. Other contracts were concluded under framework agreements or dynamic purchasing system catalogue purchases. The majority of the contracted value was awarded to the non-Baltic companies, whilst noting that sub-contracting to local Baltic companies is also taking place. The largest signed contracts – namely for the detailed technical design and design supervision services, include also local sub-contractors providing services, such as certain design aspects and geology, for instance.

Procurement procedures at RB Rail AS were executed effectively – only 3 procurement procedures received appeals, out of which 1 was retendered, 2 appeal decisions were in favour of RB Rail AS. Additionally, 1 procurement process was terminated. According to the RB Rail AS Supplier Survey 2019, almost 70% of suppliers have said that the procurement quality of RB Rail AS is high or very high.

Efforts to improve the Global Project procurement policies and to ensure transparency and best practice application throughout the project is continuously on the agenda of the Joint Venture. In 2019 the updated Common Procurement Standards and Guidelines for the Rail Baltica Project came into force, including the updated minimum qualification requirements, which shall also be applied by the implementing bodies. In 2020, the procurement policy shall be reviewed for further updates as the project is continuously developing. Additionally, RB Rail AS is developing procurement strategies for future delivery phases throughout 2020.

## **Public Communication**

In 2019 RB Rail AS maintained a strong and consistent presence in the media. Our proactive media approach allowed us to generate up to 800 TV, radio, print and online media stories in the Baltics and internationally. According to the media monitoring data, most publications about Rail Baltica project are neutral or positive. More than 1300 people have taken part in presence and online in public events organised by the Company. In line with the communication plan, RB Rail AS senior management and experts have taken a prominent role in external events and addressed over 1500 people including railway industry members, policy makers, and construction industry representatives. During the reporting period, RB Rail AS launched a new online public information centre in four languages, to raise public awareness and support. Since June 2019, information centre has attracted nearly 50 thousand users. In addition, two public information campaigns were implemented. Our content was displayed more than 5 million times and engagement rate was higher than the industry average. Rail Baltica Global website too performed strongly with nearly 250 thousand sessions of which, 140 thousand were done by new

users. Furthermore, RB Rail conducted the third annual Rail Baltica Global Forum with more than 600 participants from the Baltics and rest of Europe.

## **Goals for 2020**

The key objective for RB Rail AS in 2020 will be timely implementation of the ongoing detailed technical designs works on the main line of Rail Baltica: on the entire territory of Estonia and Latvia and in two out of four sections in Lithuania and procure services for NOBO and technical reviews. Further, RB Rail AS will be part of the procurement of the construction works of Rail Baltica passenger terminal in Riga International Airport.

In order to prepare for the construction phase, RB Rail together with Implementing Bodies will have to focus on developing a strategy for main line construction and procurement of materials and components.

To further secure funding for the Global Project, RB Rail AS will coordinate application for the next two rounds of CEF financing and work with the Beneficiaries on long-term financing of the Joint Venture.

As the coordinator of the Global Project, RB Rail AS will take active role in special planning processes in Lithuania to begin the detailed technical design works in the remaining sections as soon as possible. In the same capacity, RB Rail AS will facilitate the necessary legislative and administrative changes to speed up land acquisition legislation in Latvia and Estonia.

Finally, RB Rail AS will facilitate necessary changes in the Global Project implementation structure.

## **Financial performance and the Financial position for the Reporting Period**

The reporting period from 1 January 2019 through 31 December 2019 was the Company's fifth year of operations.

In 2019 the Company recognised income from EU grants and other financing income of 8 197 899 EUR (in 2018 – 5 647 018 EUR), and closed the year with a loss of 1 409 201 EUR (in 2018 – loss of 1 462 151 EUR) increasing the total accrued loss to 4 836 885 EUR.

During the year, the share capital was increased by 3 EUR and 1 949 997 EUR as a share premium. At 31 December 2019 the equity remained positive at 6 863 115 EUR.

In line with the Agreement on Interim Financing of RB Rail AS in 2019, RB Rail AS and the Beneficiaries held discussions on conceptual approach to financing RB Rail AS activities for the implementation of the Global Project from 2020 and onwards with the aim to conclude agreement before 30 September 2019. The parties did not reach agreement and negotiations continued in 2020.

RB Rail AS annual budget for 2020 was approved by its Supervisory Board on 19 December 2019 with the headcount increase to 130 employees by the end of 2020. The budget can be reviewed depending on the financing amounts available under new CEF Grant Agreements.

Following the decisions of the State Revenue Service of Latvia to decline repayment of input VAT for the 3<sup>rd</sup> and 4<sup>th</sup> quarter of 2018 on the grounds that the Company did not have VAT taxable income, RB Rail AS stopped deducting input VAT in 2019 in all three states. The Agreement on Interim Financing of RB Rail AS in 2019 foresees that additional financing to cover the non-deductible VAT should be provided by the Beneficiary of the respective country, and separate agreement is needed for accrued late payment interest payments. On 3 December 2019, the Government of Latvia adopted decision to compensate the non-deductible input VAT incurred by the

Company in Latvia. The amount due of 897 695 EUR for the period from 1 July 2018 to 31 October 2019 was transferred to RB Rail AS by the Ministry of Transport of the Republic of Latvia on 30 December 2019. The remaining VAT amount of 113 705 EUR for November – December 2019 and accumulated late payment interest of 18 092 EUR is expected to be compensated to the Company after the Government adopts respective decision in 2020. The non-deductible input VAT incurred by the Company in Estonia and Lithuania in 2019 was compensated by the respective country's shareholder via contribution to the Company's equity.

Amendments to CEF1 Grant Agreement (No INEA/CEF/TRAN/M2014/1045990) were signed in December 2019 extending eligibility period of the facility by 2 years and increasing the amount of grant available to the Company.

RB Rail AS finalised Risk management framework, establishing a thorough Risk Management manual, including strategy, updated policy and procedures. The Company's current Risk management policy is disclosed in Note 22.

### **Events after the balance sheet date**

Subsequent events are disclosed in Note 23.



Agnis Driksna

Chairman of the Management Board

23 March 2020

The annual report was approved by the shareholders' meeting on 15 April 2020

## Statement of profit or loss

	Notes	01.01.2019- 31.12.2019 EUR	01.01.2018- 31.12.2018 EUR
Other operating income	4	8 197 899	5 647 018
Personnel costs	5	(5 321 242)	(3 411 795)
a) remuneration for work		(4 360 638)	(2 683 658)
b) mandatory state social insurance contributions		(960 383)	(727 981)
c) other social insurance costs		(220)	(156)
Depreciation	8	(98 515)	(73 736)
Other costs of economic activity	6	(4 185 403)	(3 622 730)
<b>Loss before corporate income tax</b>		<b>(1 407 261)</b>	<b>(1 461 243)</b>
Corporate income tax for the financial year	7	(1 940)	(908)
<b>Total loss for the year</b>		<b>(1 409 201)</b>	<b>(1 462 151)</b>

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



Agnis Driksna  
 Chairman of the Management Board



Anita Pūka  
 Chief Accountant


23 March 2020

## Balance sheet

ASSETS			
	Notes	31.12.2019 EUR	31.12.2018 EUR
NON-CURRENT ASSETS			
<hr/>			
Intangible assets			
Intangible assets	8	142 465	53 407
Advance payments for intangible assets	8	-	24 822
TOTAL		142 465	78 229
Other fixed assets	8	158 527	130 253
TOTAL NON-CURRENT ASSETS		300 991	208 482
<hr/>			
CURRENT ASSETS			
Receivables			
Receivables from associates	9	134 110	-
Other receivables	10	40 394	40 928
Prepaid expense	11	121 675	77 686
Accrued income	12	6 569 382	1 603 673
TOTAL		6 865 561	1 722 287
Cash	13	5 828 290	7 340 074
TOTAL CURRENT ASSETS		12 693 850	9 062 361
<hr/>			
TOTAL ASSETS		12 994 841	9 270 843

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

  
 Agnis Driksna  
 Chairman of the Management Board


  
 Anita Puka  
 Chief Accountant

23 March 2020

## Balance sheet

EQUITY AND LIABILITIES			
	Notes	31.12.2019 EUR	31.12.2018 EUR
<b>EQUITY</b>			
Share capital	13	1 950 015	1 950 012
Share issue premium	13	9 749 985	7 799 988
Accumulated losses		(3 427 684)	(1 965 533)
Losses for the financial year		(1 409 201)	(1 462 151)
<b>TOTAL EQUITY</b>		<b>6 863 115</b>	<b>6 322 316</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans from associates	15	5 068 154	-
Deferred income	16	137 365	111 141
<b>TOTAL</b>		<b>5 205 519</b>	<b>111 141</b>
<b>Current liabilities</b>			
Accounts payable to suppliers and contractors		291 538	368 939
Payables to related parties	21	149 768	-
Taxes payable	17	35 751	36
Other payables	18	235	1 589 029
Deferred income	16	178 742	401 104
Accrued liabilities	19	270 173	478 278
<b>TOTAL</b>		<b>926 207</b>	<b>2 837 386</b>
<b>TOTAL LIABILITIES</b>		<b>6 131 726</b>	<b>2 948 527</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>12 994 841</b>	<b>9 270 843</b>

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

  
 Agnis Driksna  
 Chairman of the Management Board


  
 Anita Pūka  
 Chief Accountant


23 March 2020

## Statement of cash flows

	Notes	01.01.2019- 31.12.2019 EUR	01.01.2018- 31.12.2018 EUR
<b>Cash flows to/ from operating activities</b>			
Loss before tax		(1 407 261)	(1 461 243)
Adjustments for:			
Reduction of non-current assets value	8	98 515	73 736
Income from INEA and state financing	4	(8 182 374)	(5 647 018)
<b>Operating profit or (loss) before working capital changes</b>		<b>(9 491 119)</b>	<b>(7 034 525)</b>
Decrease / (increase) in receivables		(43 455)	(34 181)
(Decrease)/ increase in payables		(43 627)	248 503
(Decrease)/increase in accrued expense		(208 105)	356 977
<b>Cash generated from operations</b>		<b>(9 786 306)</b>	<b>(6 463 226)</b>
Corporate income tax paid		(1 031)	(1 125)
<b>Net cash flows to operating activities</b>		<b>(9 787 337)</b>	<b>(6 464 351)</b>
<b>Cash flows to investing activities</b>			
Purchase of intangible assets		(93 940)	(53 680)
Purchase of tangible assets		(97 085)	(90 615)
<b>Net cash flows to investing activities</b>		<b>(191 025)</b>	<b>(144 295)</b>
<b>Cash flows from financing activities</b>			
Paid in share capital	13	3	3
Paid in Share premium	13	1 949 997	1 949 997
Loans from associates	15	5 068 154	-
Subsidy for VAT from Republic of Latvia	4	897 695	-
Grants/ Pre-financing from INEA attributable to the Company	4	2 009 127	5 737 119
<b>Net cash flows to/ from financing activities</b>		<b>9 924 976</b>	<b>7 687 119</b>
Change in cash		(53 386)	1 078 473
Cash at the beginning of the period	13	5 752 312	4 673 839
<b>Cash at the end of the year attributable to the Company</b>	13	<b>5 698 926</b>	<b>5 752 312</b>
<b>Cash at the end of the year attributable to the other Beneficiari</b>	13	<b>129 364</b>	<b>-</b>

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

  
Agnis Driksna  
Chairman of the Management  
Board

  
Anita Pūka  
Chief Accountant

23 March 2020

## Statement of changes in equity

	Share capital	Share premium	Accumulated losses	Loss for the period	Total
Balance as at 31 December 2017	1 950 009	5 849 991	(1 212 551)	(752 983)	5 834 466
(Loss) for the reporting year				(1 462 151)	(1 462 151)
Transfer of prior year result	-	-	(752 983)	752 983	-
Issue of share capital	3	1 949 997	-	-	1 950 000
Balance as at 31 December 2018	1 950 012	7 799 988	(1 965 534)	(1 462 151)	6 322 316
(Loss) for the reporting year	-	-	-	(1 409 201)	(1 409 201)
Transfer of prior year result	-	-	(1 462 151)	1 462 151	-
Issue of share capital	3	1 949 997	-	-	1 950 000
Balance as at 31 December 2019	1 950 015	9 749 985	(3 427 685)	(1 409 201)	6 863 115

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



Agnis Driksna  
 Chairman of the Management Board



Anita Pūka  
 Chief Accountant

23 March 2020



## 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 K.Valdemāra iela 8-7, 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 (including branding) *Rail Baltica* railway line.

The Company has registered branch offices:

RB Rail AS Lietuvos filialas with the registered address at Gedimino pr. 20, Vilnius, Lithuania,

RB Rail AS Eesti filial registered at Endla 16, Tallin, Estonia.

The financial statements of the Company for the period from 1 January 2019 through 31 December 2019 were approved by a resolution of the Company's shareholders on 15 April 2020.

### 2. Summary of significant accounting policies

#### **Basis of preparation**

The financial statements of the Company have been prepared in accordance with the Law of the Republic of Latvia on Annual Financial Reports and Consolidated Financial Reports.

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.

#### **Other operating income**

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

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%
INEA/CEF/TRAN/M2016/1360716	- 85%

#### **Corporate income tax**

In accordance with Corporate Income Tax law, which entered into force on 1 January 2018, tax is payable only at the moment of distribution of profits or for transactions considered as deemed distribution.

#### **Intangible assets**

Intangible assets are stated at costs less amortization and any impairment of value, and are amortised over their useful lives. Software licenses are amortised over the license period. Development costs of software applications are capitalized and amortised over the period of three years.

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

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Office furniture	- 7 years
Other fixed assets	- 3 years

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 profit or loss 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 profit or loss in the depreciation caption.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at historical costs less repayments, write-offs and provisions for bad debts.

### ***Cash***

Cash comprises balances of current accounts with banks.

### ***Loans received***

Loans received are financial instruments which are measured at historical costs less repayments of principal amounts.

### **Leases**

A lease is a contractual arrangement under which lessor provides to lessee rights of use of a particular asset for a given period of time for a consideration. Accounting treatment of a lease is determined by its classification at inception date.

A lease is classified as finance lease if it transfers to lessee substantially all risks and rewards of ownership, and at least one of the following conditions is true:

- Ownership rights are transferred to lessee by the end of a lease period;
- A lease period covers substantially all of asset's useful life even if ownership rights are not transferred;
- The leased asset is of a specific nature such that only the lessee can use it without major modifications being made.

At commencement of the lease term, finance leases are recorded as an asset and a liability at the present value of the minimum lease payments as discounted at the interest rate implicit in the lease.

Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The depreciation policy for assets held under finance leases is the same as for owned assets.

A lease which does not transfer substantially all risks and rewards of ownership to lessee is classified as operating lease. Payments under operating leases are recognized in the statement of profit or loss over the lease term.

### **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 profit or loss 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 profit or loss 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.

### ***Deferred income***

Deferred income is recognised when funds from European Union have been used for acquiring non-current assets. Deferred income is taken to income gradually over the useful lives of the relevant non-current assets. Part of the deferred income, which will be recognized in income later than one year, is classified as non-current deferred income. Balances of grant pre-financing received, and not yet used for planned eligible expenses, are also recognized as deferred income and classified as current or non-current depending of the estimated period of use.

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

### ***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.

### ***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 2018.

### ***Recognition of income from CEF grants***

The Company recognizes income from CEF grants based on eligible costs incurred for each Action covered by a grant agreement. 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. European Innovation and Networks Executive Agency (INEA) reviewed the interim financial statements of the Company for CEF1, CEF2 and CEF3 grant agreements, covering financial years 2017 and 2018, and considered some costs reported non-eligible, however, the amount of rejected costs was immaterial and mostly consisted of VAT not separated from employee expense claims. Rejected costs are taken into account when calculating income for 2019.

### ***Accrued income***

Accrued income represents the excess of eligible costs incurred over the grant financing already received and allocated to the Company as well as the grant financing and national co-financing receivable from the Estonian Beneficiary.

### ***Distribution of grant financing received***

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.

On 17 April 2019 INEA transferred to the coordinator's account the pre-financing for CEF1 Grant Agreement of 9 621 692 EUR. Undistributed CEF1 pre-financing of 1 587 762 EUR was held in the coordinator account from previous years. As a result, the total amount of CEF1 pre-financing available for distribution in 2019 was 11 209 454 EUR. On 13 May 2019 INEA transferred pre-financing in the amount of 4 248 320 EUR for CEF3 Grant Agreement. The split of CEF1 pre-financing per Beneficiary resulted in negative balance of 252 166 EUR for the Company and, due to that, in higher overall amount of cash to be distributed to all parties than actually available on the coordinator account from CEF1 pre-financing. The three Beneficiaries did not support splitting negative pre-financing amount of the Company among them. As a result, RB Rail AS transferred 252 166 EUR from its current account to the coordinator account to finance the additional cash needed. The Company distributed the CEF1 and CEF3 pre-financing amounts to all four parties on 13 June 2019.

In July 2019, the Ministry of Transport of the Republic of Lithuania (Lithuanian Beneficiary) informed the Company that the amount of CEF1 pre-financing receivable by Lithuania should have been higher. The difference was due to discrepancy in the amount of eligible costs used for the calculation by the Company and the Lithuanian Beneficiary. As a result, the amount of CEF1 pre-financing calculated by the Company was lower by EUR 149 768 for Lithuania and higher by EUR 20 405 for Estonia. The Company has recognized respective liability towards Lithuanian Beneficiary and receivable from Estonian Beneficiary in its balance sheet at 31.12.2019.

### ***Contingent liabilities***

As of 31 December 2019, some activities under the CEF2 (INEA/CEF/TRAN/M2015/1129482) Grant Agreement have been delayed for approximately two years. If the delayed activities would not be completed in the period set out in the grant agreement – until 31.12.2020, a part of grant financing would become unavailable. CEF2 Grant Agreements signed with European Commission will be amended during 2020, and the end date of the action will be extended until 31.12.2022, thus allowing to mitigate the risk of cost.

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 project was not implemented or implemented poorly, partially or late.

***Going concern***

The agreement on long-term financing of RB Rail AS has not been signed in 2019, negotiations continue. As an interim solution, the parties have agreed to conclude agreement on ensuring working capital for the operation of RB Rail AS in 2020 before April 2020. Some part of financing solutions are to be concluded throughout the year.

RB Rail AS, together with other beneficiaries, have sent 782 million EUR funding application for CEF 6 INEA announced call. Part of the financing is needed for RB Rail AS 2020 cost to be covered. In case funding is not received, significant additional contribution from shareholders shall be needed or significant reduction of RB Rail AS budget for 2020 shall be made.

On 6 November, the Government of Latvia adopted decision in respect of non-recoverable input VAT of RB Rail AS. It provides that Latvian VAT has been financed by the European Commission, Latvia, Estonia and Lithuania and, due to that, needs to be refunded to the Lithuanian and Estonian state budgets (not to RB Rail AS) provided Lithuania and Estonia implement analogous mechanisms for compensating any Lithuanian VAT or Estonian VAT financed by Latvia. Mechanism to do that needs to be developed by the Ministry of Transport of the Republic of Latvia by 5 March 2020. In reality, Estonian and Lithuanian shareholders have compensated the non-deductible input VAT incurred by RB Rail AS in Estonia and Lithuania through their respective investments into the Company's share capital.

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 31.12.2019 (see also Note 24).

#### 4. Other operating income

	2019 EUR	2018 EUR
Income from CEF grants co-financing from INEA to compensate the following costs:		
Project implementation support measures	5 043 585	3 500 200
Technical and operational studies	1 006 196	1 810 345
PR, marketing and business development	507 633	336 473
Income from the Ministry of Economic Affairs and Communications of the Republic of Estonia to compensate costs related to project activities in Estonia	613 559	-
Compensation for costs of VAT from the Ministry of Transport of the Republic of Latvia	1 011 401	-
Contractual penalty income	15 525	-
<b>TOTAL:</b>	<b>8 197 899</b>	<b>5 647 018</b>

On 24 November 2015 the Company has concluded CEF1 Grant Agreement (No INEA/CEF/TRAN/M2014/1045990) with subsequent amendments on 13 December 2019 under the Connecting Europe Facility, Transport sector, with the European Innovation and Networks Executive Agency 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 2022. The grant for the action is a maximum amount of 442.2 million EUR, and total estimated eligible costs are 536.7 million EUR.

On 18 November 2016, the Company signed CEF2 Grant Agreement (No INEA/CEF/TRAN/M2015/1129482) with subsequent amendments on 23 June 2017 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 corridor through Estonia, Latvia and Lithuania (Part II)". This agreement is meant to supplement the CEF1 Grant Agreement, signed in 2015. The action runs from 16 February 2016 until 31 December 2020. The grant for the action is a maximum amount of 130.2 million EUR, and total estimated eligible costs are 153.1 million EUR.

Both above mentioned CEF1 and CEF2 Grant Agreements implementation progress have been evaluated by the INEA during a mid-term review, which concluded with the decision to allow to amend the Grant Agreements by extending the end date until 31.12.2022, thus allowing to use the allocated funds to maximum extent possible. Grant Agreement amendments process for CEF1 Grant Agreement has been completed on 13 December 2019. Change process for CEF2 Grant Agreement is expected to be started after submission of Action Status Reports 2020 and completed by end of September 2020.

On 13 June 2018 the Company signed a third Grant Agreement No. INEA/CEF/TRAN/M2016/1360716 (CEF3 Grant Agreement), which allows to continue the development of Rail Baltica Global project, foreseeing significant budget for further technical studies, supplier market studies, electrification studies, risk management, as well implementation of building information management system. Also, budget for design in one of the Latvian sections, and the third phase of construction in Lithuania have been foreseen. CEF3 Grant Agreement also focused

on the improvements of Global Project delivery and the possible ways forward to setup the best project delivery organization. The maximum amount of eligible expenditure under the CEF3 Grant Agreement is 130 million EUR, and the amount of the grant is 110,5 million EUR. The Action runs from 6 February 2017 to 31 December 2023.

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, with the exception of certain types of expenses of clearly administrative nature, which are specifically referred to in the CEF Grant Agreements as non-eligible.

In 2019 and 2018 income from CEF grants was recognized in the amount of 85% from eligible expenses incurred during the reporting year.

income from the Ministry of Economic Affairs and Communication of the Republic of Estonia, CEF grant beneficiary, Rail Baltica stakeholder and one of the Company's indirect shareholders, relates to activities performed by RB Rail AS in 2019 acting in its capacity of central purchasing body or engaging directly in project activities under the responsibility of Estonian Beneficiary. The Ministry undertook to finance such direct costs as well as a share of general administrative costs of RB Rail AS in the agreement signed by both parties on 19 December 2019 from CEF grant financing available to it as a Beneficiary and related national co-financing in the form of grant. The financing income provided by Estonian Beneficiary in the form of grant for covering RB Rail costs related to activities specified in the agreement is recognized as accrued income in the balance sheet and as revenue in the income statement. The above financing for RB Rail AS activities was envisaged in the Agreement on Interim Financing of RB Rail AS in 2019 signed on 26 March 2019.

The Agreement on Interim Financing of RB Rail AS in 2019 foresees that additional financing to cover the non-deductible VAT should be provided by the Beneficiary of the respective country, and separate agreement is needed for accrued late payment interest payments. On 3 December 2019, the Government of Latvia adopted decision to compensate the non-deductible input VAT incurred by the Company in Latvia. The amount due of 897 695 EUR for the period from 1 July 2018 to 31 October 2019 was transferred to RB Rail AS by the Ministry of Transport of the Republic of Latvia on 30 December 2019. The remaining VAT amount of 113 705 EUR for November – December 2019 is expected to be compensated to the Company after the Government adopts respective decision in 2020.



## 5. Personnel costs

	2019 EUR	2018 EUR
<b>a) Remuneration for work</b>		
Project management team remuneration	3 661 952	2 116 498
Management board remuneration	512 687	381 109
Supervisory board remuneration	186 000	186 051
<b>TOTAL:</b>	<b>4 360 638</b>	<b>2 683 658</b>
<b>b) Social insurance costs</b>		
Project management team	815 783	575 381
Management Board members	110 293	101 074
Supervisory board members	34 307	51 526
<b>TOTAL:</b>	<b>960 383</b>	<b>727 981</b>
<b>c) Other social insurance costs</b>		
Entrepreneurship state risk duty	220	156
<b>TOTAL:</b>	<b>220</b>	<b>156</b>

At the end of financial year 2019 the Company employed 89 employees and had 3 board members and 6 supervisory board members (2018: 62, 3 and 6 respectively). The average number of employees during the reporting year was 79, 3 board members and 6 supervisory board members (2018: 48, 4 and 6 respectively).

## 6. Other costs of economic activity

	2019 EUR	2018 EUR
Professional service fees	1 616 147	2 259 689
Travel costs	417 800	320 117
Public relations and communication	372 517	230 086
Office rent and maintenance expense	416 206	325 030
Other project implementation support measures	290 665	189 590
Recruitment and training	162 831	140 962
Provision for non-recoverable input VAT	909 237	157 256
<b>TOTAL:</b>	<b>4 185 403</b>	<b>3 622 730</b>

## 7. Corporate income tax

	2019 EUR	2018 EUR
Current corporate income tax charge for the reporting year in Latvia	1 239	804
Current corporate income tax charge for the reporting year in Estonia	701	104
<b>Total corporate income tax expense:</b>	<b>1 940</b>	<b>908</b>

## 8. Non-current assets

	Intangible assets	Advance Payments for intangible assets	Other fixed assets	TOTAL
Carrying amount as at 31 December 2017	18 208	11 760	94 892	124 860
Additions 2018	41 920	24 822	90 616	157 358
Disposals	11 760	(11 760)	-	-
Depreciation charge 2018	(18 482)	-	(55 254)	(73 736)
Carrying amount as at 31 December 2018	53 406	24 822	130 254	208 482
Additions 2019	47 173	46 767	97 085	191 025
Reclassification	71 589	(71 589)	-	0
Depreciation charge 2019	(29 703)	-	(68 811)	(98 515)
Carrying amount as at 31 December 2019	142 465	-	158 527	300 991

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 Project implementation support cost in these financial statements (see Note 4). Grant income from CEF co-financing has been recognized accordingly in amount of 85% of the depreciation charge, 83 738 EUR in 2019 (2018: 62 676).

## 9. Receivables from associates

	31.12.2019 EUR	31.12.2018 EUR
VAT compensation receivable from Ministry of Transport of the Republic of Latvia*	113 705	-
Overpaid CEF1 grant pre-financing receivable from Ministry of Economic Affairs and Communications of the Republic of Estonia**	20 405	-
<b>Total corporate income tax expense:</b>	<b>134 110</b>	<b>-</b>

\* On 3 December 2019, the Government of Latvia adopted decision to compensate to RB Rail AS the non-deductible input VAT that the Company incurred in Latvia, and on 30 December 2019 the Company received a compensation of VAT costs for taxable periods from 01.07.2018. to 31.10.2019 of 897 695 EUR. The amount included in other receivables represents the compensation receivable for taxable periods November and December 2019.

\*\* In 2019 RB Rail AS as CEF coordinator distributed CEF grant prefinancing received from INEA to other project beneficiaries. Due to discrepancy in the amount of eligible costs used for the calculation by the Company and the Lithuanian Beneficiary the amount of CEF1 pre-financing calculated by the Company was lower by EUR 149 768 for Lithuania and higher by EUR 20 405 for Estonia. The Company has recognized respective liability towards Lithuanian Beneficiary and receivable from Estonian Beneficiary in its balance sheet at 31.12.2019 (see also Note 21).

#### 10. Other receivables

	31.12.2019 EUR	31.12.2018 EUR
Tax receivables (see Note 17)	24 723	29 809
Security deposit for office rent	14 565	9 249
Other receivables	1 106	1 870
<b>TOTAL:</b>	<b>40 394</b>	<b>40 928</b>

#### 11. Prepaid expense

	31.12.2019 EUR	31.12.2018 EUR
Insurance	10 502	8049
Software and other subscription costs	107 474	42 344
Participation in exhibitions and conferences	2 875	24 456
Travelling expense	824	2280
Advances to suppliers	-	557
<b>TOTAL:</b>	<b>121 675</b>	<b>77 686</b>

#### 12. Accrued Income

	31.12.2019 EUR	31.12.2018 EUR
Accrued CEF1 grant income	3 599 017	1 158 426
Accrued CEF3 grant income	2 356 806	445 247
Accrued financing income from Ministry of Economic Affairs and Communication of the Republic of Estonia	613 559	-
<b>TOTAL:</b>	<b>6 569 382</b>	<b>1 603 673</b>

Accrued income from CEF grants comprises grant financing receivable under CEF1 and CEF3 Grant Agreements with the European Union's Innovation and Network's Executive Agency based on the eligible costs of the Company incurred until the end of the reporting year.

Actual eligible costs related to project activities under the CEF2 Grant Agreement in 2019 were lower than the financing received. Balance of the CEF2 financing is reflected in deferred income (see note 16).

Accrued income from the Ministry of Economic Affairs and Communication of the Republic of Estonia, CEF grant beneficiary, Rail Baltica stakeholder and one of the Company's indirect shareholders, relates to activities performed by RB Rail AS in 2019 acting in its capacity of central purchasing body or engaging directly in project activities under the responsibility of Estonian Beneficiary. The Ministry undertook to finance such direct costs as well as a share of general administrative costs of RB Rail AS in the agreement signed by both parties on 19 December 2019 from CEF grant financing available to it as a Beneficiary and related national co-financing in the form of grant. The financing income provided by Estonian Beneficiary in the form of grant for covering RB Rail costs related to activities specified in the agreement is recognized as accrued income in the balance sheet and as revenue in the income statement. The above financing for RB Rail AS activities was envisaged in the Agreement on Interim Financing of RB Rail AS in 2019 signed on 26 March 2019.

### 13. Cash

	31.12.2019 EUR	31.12.2018 EUR
CEF financing account	129 364	1 587 762
Company's operational account	5 698 926	5 752 312
<b>TOTAL:</b>	<b>5 828 290</b>	<b>7 340 074</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 Beneficiary's planned eligible costs according to indicative budget in the Grant Agreement and forecast activities in next year.

The balance on the CEF financing account represent the remaining CEF1 pre-financing received from INEA in April 2019, which is designated for the Lithuanian Beneficiary, Ministry of Transport and Communications of the Republic of Lithuania, according their Activity Status Report of 2019, and forms part of the liability to related party in the Note 21.

#### 14. Share capital

As at 31 December 2019 the share capital of the Company is 1 950 015 EUR (31.12.2018: 1 950 012 EUR) and consists of 1 950 015 shares. The share capital is fully paid up. The par value of each share is 1 EUR. As at 31 December 2019, the share premium amounted to 9 749 985 EUR (31.12.2018: 7 799 988 EUR).

As at 31 December 2019, the shares were distributed as follows:

	%	Number of shares	Share premium
Rail Baltic Estonia OU	33.33	650 005	3 249 995
Eiropas dzelzceļa līnijas SIA	33.33	650 005	3 249 995
Rail Baltica Statyba UAB	33.33	650 005	3 249 995
<b>TOTAL:</b>	<b>100</b>	<b>1 950 015</b>	<b>9 749 985</b>

#### 15. Loans from associates

	31.12.2019 EUR	31.12.2018 EUR
Loan from the Ministry of Transport and Communications of the Republic of Lithuania	2 534 077	-
Loan from the Ministry of Transport of the Republic of Latvia	2 534 077	-
<b>TOTAL:</b>	<b>5 068 154</b>	<b>-</b>

The terms of the CEF grant agreements provide a significant time gap between the 50% pre-financing and receiving the remaining 50% of approved grant financing. To help RB Rail overcome this financing gap other Beneficiaries of Rail Baltica project in the Agreement on Interim Financing of RB Rail AS in 2019 agreed to provide interest-free bridge loans to the Company from the CEF funds available to them until the time when RB Rail will receive the respective interim and final payments from INEA. According management estimate the earliest possible loan repayment date is 31 December 2021.

The loan from Ministry of Transport and Communications of the Republic of Lithuania was received by RB Rail on 23 May 2019, while the loan from the Ministry of Transport of the Republic of Latvia was withheld by RB Rail by mutual agreement from the CEF pre-financing amounts received on coordinator's account in April and May 2019 and attributable to the Ministry during the pre-financing distribution on 31 May 2019. Bridge loan from the Ministry of Economic Affairs and Communications of the Republic of Estonia is expected to be received during the 1<sup>st</sup> quarter of 2020 in line with the bilateral agreement signed on 19 December 2019.

## 16. Deferred income

CEF financing under the three 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 2023 - preparation for Rail Baltica construction and initiation of construction phase.

Non-current deferred income comprises grant financing used for acquisition of non-current assets recognised as income gradually over the useful life of the assets in periods later than one year, and balances of grant pre-financing, if they are expected to be used for eligible costs later than in one year's time.

Current deferred income comprises unused balances of grant financing received and expected to be used for eligible costs in one year's time as well as financing used for acquisition of non-current assets to be recognised in income next year.

	31.12.2019 EUR	31.12.2018 EUR
Non-current portion of deferred income related to non-current assets	137 365	111 141
Current portion of deferred income related to non-current assets	118 477	66 069
Current portion of deferred income related to balance of CEF2 financing	60 265	335 035
<b>TOTAL:</b>	<b>316 107</b>	<b>512 245</b>

## 17. Taxes (payable) /overpaid

	31.12.2019 EUR	31.12.2018 EUR
<b>Latvia</b>		
Value added tax	(33 637)	1 999
Personal income tax	4 837	20
Mandatory state social insurance contributions	(46)	120
Corporate income tax	(244)	(36)
<b>Estonia</b>		
Value added tax	11 201	17 641
Corporate income tax	(451)	250
Statutory social insurance contributions	(1 157)	255
Personal income tax	-	131
<b>Lithuania</b>		
Value added tax	8 685	9 393
Statutory social insurance contributions	(113)	-
Personal income tax	(103)	-
<b>TOTAL:</b>	<b>(11 028)</b>	<b>29 773</b>
<b>TOTAL LIABILITY:</b>	<b>(35 751)</b>	<b>(36)</b>
<b>TOTAL OVERPAYMENT (See Note 10):</b>	<b>24 723</b>	<b>29 809</b>

## 18. Other payables

	31.12.2019 EUR	31.12.2018 EUR
Undistributed CEF financing	-	1 587 762
Compensation to employees, travel	235	1 267
<b>TOTAL:</b>	<b>235</b>	<b>1 589 029</b>

## 19. Accrued liabilities

	31.12.2019 EUR	31.12.2018 EUR
Accrued liabilities for unused vacations	196 332	122 333
Accrued liabilities for professional services	24 795	323 410
Accrued liabilities for audit services	40 000	26 000
Other accrued liabilities	9 046	6 535
<b>TOTAL:</b>	<b>270 173</b>	<b>478 278</b>

## 20. Contingent liabilities

Operating lease commitments at the end of the reporting period:

	31.12.2019 EUR	31.12.2018 EUR
Lease of premises	302 974	630 526
Lease of cars	91 834	44 421
Other leases	27 523	33 626
<b>TOTAL:</b>	<b>422 332</b>	<b>708 573</b>

## 21. 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 dzelzceļa līnijas SIA and Rail Baltica statyba UAB, each of them owning 33.33% of the Company's shares. The Company's shareholders have been established by the respective Ministry in each country: Estonia, Latvia and Lithuania (by state owned company Lithuanian Railways – Lietuvos Geležinkeliai AB).

During 2019 the Company as a coordinator received pre-financing amounts from INEA in line with CEF1 and CEF3 Grant Agreements. All pre-financing was distributed to all 4 parties except an amount of 149 768 EUR payable to Lithuanian Beneficiary, which was not yet transferred due to discrepancy of information in Activity Status Report

and its annex. At the same time Estonian Beneficiary received 20 405 EUR more pre-financing than necessary. The respective amounts will be off set with the next tranche of available CEF financing. See also Note 13 on restricted cash CEF financing account.

During 2019 the Company received two bridge loans from the Beneficiaries (see Note 15).

According the Government of the Republic of Latvia from 3 December 2019 the Ministry of Transport of the Republic of Latvia undertook to compensate VAT costs incurred by the Company in Latvia and 897 695 EUR was received on 30 December 2019, while compensation for November and December 2019 remained receivable (see Note 9).

There were no other payables to or receivables from related parties at the end of the current period and previous reporting period.

## 22. Financial and operational risks

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

### Liquidity risk

The Company manages its liquidity risk by arranging adequate amount of shareholders' and Beneficiaries' 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.

On 26 March 2019 RB Rail AS signed an Agreement on Interim Financing of RB Rail AS in 2019 with the Ministry of Economic Affairs and Communications of the Republic of Estonia, Ministry of Transport of the Republic of Latvia, Ministry of Transport and Communications of the Republic of Lithuania, Rail Baltic Estonia OÜ, Eiropas Dzelzceļa līnijas SIA, Rail Baltica Statyba UAB. The agreement included a number of different mechanisms for ensuring financial means, including share capital increase of RB Rail AS, grant financing re-allocation, state subsidies and bridge financing to cover periods of RB Rail AS operations when costs eligible for grant financing had been incurred, but final grant payments are not yet received.

Unfortunately, the decision on long-term sustainable RB Rail AS financing has not been reached in 2019. The parties continue negotiating draft Agreement on Long-term Financing of RB Rail AS. As interim solution, the parties have agreed to conclude an agreement on ensuring working capital for the operation of RB Rail AS in 2020 before April 2020 with the aim to provide financial means to the Company in the period while long-term solution is being negotiated.

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

	31.12.2019 EUR	31.12.2018 EUR
Payable:		
Less than 3 months	327 289	368 975
CEF financing distributable within one year	149 768	1 587 762
<b>TOTAL:</b>	<b>477 057</b>	<b>1 956 737</b>



RB Rail AS, together with other beneficiaries, have sent 782 million EUR funding application for CEF 6 INEA announced call. Part of the financing is needed for RB Rail AS 2020 cost to be covered. In case funding is not received, significant additional contribution from shareholders shall be needed or significant reduction of RB Rail AS budget for 2020 shall be made.

The operations of Company will depend on the ability of the Rail Baltica project stakeholders to reach agreement on sustainable financing model.

#### Credit risk

The Company is exposed to credit risk through its other receivables and cash. The main component of other receivables is the non-deductible input VAT to be compensated by the Ministry of Transport of the Republic of Latvia, therefore the Company's credit risk exposure is not significant. Following the decisions of the State Revenue Service of Latvia to reject input VAT repayment for the third and fourth quarters of 2018 on the basis that RB Rail AS is not earning VAT taxable income, the Company has stopped deducting input VAT in all three States. Based on a principal agreement among the shareholders and Beneficiaries of RB Rail AS the compensation should be provided to the Company by the country where VAT is payable. This principle was included in the Agreement on Interim Financing of RB Rail AS in 2019 and also in the draft Agreement on Long-term Financing of RB Rail AS negotiated by the parties currently. However, the parties have to agree separately about financing of any related costs, such as but not limited to VAT related late payment interest and possible penalties.

#### 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.

#### Operational risk

As of 31 December 2019, some activities under the CEF Grant Agreements have been delayed for approximately two years. The delayed activities will not be completed in the period set out in the CEF2 Grant Agreement– until 31.12.2020. CEF2 Grant Agreement signed with European Commission is currently under amendment process, and it is planned that term will be extended until 31.12.2022, thus allowing to mitigate the risk of cost ineligibility. Potential additional delays may occur due to an additional need of territorial planning, environmental impact assessment procedures, land acquisition process and financing issues, design and construction procurements processes.

Joint Venture has finalized Risk management framework, which is in force since beginning 2019 and Risk management system is currently being implemented with an aim to be in place by August 2020.

Joint Venture has finalized Risk management framework, which is in force since beginning 2019.

### **23. Subsequent events**

On 26 February 2020 the Company together with the Beneficiaries of the Rail Baltica Global Project submitted two applications under 2019 MAP Transport Cohesion call for project proposals. The total eligible amount of both applications is 782.7 million EUR with estimated grant amount of 665.2 million EUR. The decision of INEA on the project applications and available budget is expected by end of June 2020 with Grant Agreements signed by end of 2020.

Management of the Company together with shareholders and Rail Baltica Global Project Beneficiaries are drafting Agreement on Long-term Financing of RB Rail AS and Agreement on Ensuring Working Capital for the operations of RB Rail AS in 2020. The agreements define a number of methods for providing financial means for the operations of the Company, including for compensating non-deductible input VAT incurred by the Company in any of the three States.

After the end of the financial year, in March 2020, restrictions related to the spread of Corona virus have entered into force in the Republic of Latvia and in many other countries, which significantly reduce economic development in the country and globally. The situation is expected to evolve in the future, and consequently, economic development is facing various uncertainties. The Company is continuously assessing the situation and has conducted the initial survey of the existing suppliers and prospective suppliers regarding their ability to deliver the contracts as well as to take part in RB Rail AS upcoming tenders. So far, no major obstacles have been identified, yet, the Company will closely monitor supplier market to make necessary adjustment when necessary. As for mitigating the risks for staff to get infected, the Company has halted all international travel, public events and third party meetings, and has provided all necessary tools, equipment, training and support for staff to continue project delivery by working remotely.

The management believes that the Company will be able to cope with the emergency situation through the following compensatory measures: working remotely, collaborating with partners and stakeholders online as well as closely monitoring the contract delivery, particularly, the detailed technical designs in all three states. Additionally, to mobilise and activate supplier market as well as assess their ability to take part in RB Rail AS critical tenders, Rail Baltic Global Forum will be conducted online. However, this conclusion is based on information available at the time of signature of these financial statements, and the impact of subsequent events on the future of the company may differ from the management assessment.

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.

### **24. Going concern**

In 2019, the Company was financed from shareholders equity, CEF financing received based on the signed CEF Grant Agreements for activities specifically earmarked for RB Rail AS, and its working capital was managed through bridge financing from the Beneficiaries. The Company closed the year with a loss of 1 409 201 EUR increasing the total accrued loss to 4 836 885 EUR.

As of 31 December 2019, the Company had 5 698 926 EUR in its current account. Further, during the year 2020, RB Rail AS expects to receive financing from the Beneficiaries and shareholders in the form of state subsidies, service fee or equity and bridge financing to manage the time periods of the Company's operations when costs eligible for grant financing had been incurred, but final grant payments are not yet received. The prerequisite for receiving these monetary flows is signed agreements for ensuring working capital for the operation of the Company in 2020 and on long-term financing. Based on the Management's estimates, the Company's liquidity will be sufficient to ensure the Company's activities in 2020 once the agreements are signed and fully implemented. However, part of the financing depends on signing the new CEF Grant Agreement for which the Rail Baltica Global Project applied on 26 February 2020. The Management of the Company and the Supervisory Board will have to review the Annual Budget for 2020 in case INEA does not approve the activities for which RB Rail AS applied in the new grant application.

In 2021 and going forward, the operation of the Company will depend on the ability of three States to agree model for ensuring sustainable flow of monetary means to RB Rail AS in a long term.

RB Rail AS, together with other beneficiaries, have sent 782 million EUR funding application for CEF 6 INEA announced call. Part of the financing is needed for RB Rail AS 2020 cost to be covered. In case funding is not received, significant additional contribution from shareholders shall be needed or significant reduction of RB Rail AS budget for 2020 shall be made.

Based on the events and conditions described, there exists a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

These financial statements are prepared on a going concern basis and do not include any adjustments that might be required if the going concern principle was not applicable.



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Agnis Driksna  
Chairman of the Management Board



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Anita Pūka  
Chief Accountant

23 March 2020

## INDEPENDENT AUDITORS' REPORT

To the shareholders of RB Rail AS

### *Our Opinion on the Financial Statements*

We have audited the accompanying financial statements of RB Rail AS ("the Company") set out on pages 12 to 35 of the accompanying annual report, which comprise the Balance sheet as at 31 December 2019, the statement of profit or loss, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of RB Rail AS as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Law On the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

### *Basis for Opinion*

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

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 26 of the financial statements, which discloses that currently the Company is financed from shareholders equity and CEF financing received based on the signed grant agreements for activities specifically earmarked for RB Rail AS. The Company closed the year with a loss 1 409 201 EUR increasing the total accrued loss to 4 836 885 EUR.

As of 31 December 2019, the Company had 5 698 925 EUR in its current account. Further, during the year 2020, RB Rail AS expects to receive financing from the Beneficiaries and shareholders in the form of state subsidies, service fee or equity and bridge financing to manage the time periods of the Company's operations when costs eligible for grant financing had been incurred, but final grant payments are not yet received. The prerequisite for receiving these monetary flows is signed agreements for ensuring working capital for the operation of the Company in 2020 and on long-term financing. Based on the Management's estimates, the Company's liquidity will be sufficient to ensure the Company's activities in 2020 once the agreements are signed and fully implemented. However, part of the financing depends on signing the new CEF Grant Agreement for which the Rail Baltica Global Project applied on 26 February 2020. The Management of the Company and the Supervisory Board will have to review the Annual Budget for 2020 in case INEA does not approve the activities for which RB Rail AS applied in the new grant application.

In 2021 and going forward, the operation of the Company will depend on the ability of three States to agree model for ensuring sustainable flow of monetary means to RB Rail AS in a long term.

RB Rail AS, together with other beneficiaries, have sent 782 million EUR funding application for CEF6 INEA announced call. Part of the financing is needed for RB Rail AS 2020 cost to be covered. In case funding is not received, significant additional contribution from shareholders shall be needed or significant reduction of RB Rail AS budget for 2020 shall be made.

## **INDEPENDENT AUDITORS' REPORT (continued)**

These circumstances indicate that material uncertainty exists that may cast doubts on 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's management is responsible for the other information. The other information comprises:

- Information about the Company, as set out on pages 3 to 5 of the accompanying Annual Report,
- the Management Report, as set out on pages 6 to 11 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 the Law On the Annual Reports and Consolidated Annual Reports of the Republic of Latvia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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## INDEPENDENT AUDITORS' REPORT (continued)

### *Auditors' Responsibility for the Audit of the Financial Statements (continued)*

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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Inguna Staša  
Board member



Elīna Sedliņa  
Certified auditor  
Certificate No. 179

Riga, Latvia  
23 March, 2020