

JOINT STOCK COMPANY RB RAIL
(UNIFIED REGISTRATION NUMBER 40103845025)

ANNUAL REPORT
FOR THE YEAR ENDING 31.12.2020
(6th 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, 2021

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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 J. Basanavičiaus g. 24, Vilnius LT-03224, Lithuania RB Rail AS Eesti filial, Reg. No. 14168654 Endla 16, Tallinn 10142, Estonia RB Rail AS Filiale, Reg. No. 40203254781 K.Valdemāra iela 8-7, Riga, Latvia
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 2020 – 31 December 2020
Previous reporting year	1 January 2019 – 31 December 2019
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:
Inguna Staša
Certificate No. 145

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	14.10.2020
Agnis Driksna	Chairperson of the Management Board	15.10.2020	-
Ignas Degutis	Member of the Management Board	11.03.2019	29.01.2021
Kaido Zimmermann	Member of the Management Board	24.12.2019	15.11.2020
Mark Stephen Loader	Member of the Management Board	01.02.2020	-
Marc Philippe El Beze	Member of the Management Board	16.11.2020	-

Members of the Supervisory Board

Name	Position	Elected	Released
Sandor Liive	Member of the Supervisory Board	06.11.2020	14.01.2021
Sandor Liive	Chairman of the Supervisory Board	14.01.2021	-
Anrī Leimanis	Chairman of the Supervisory Board	30.12.2019	06.11.2020
Anrī Leimanis	Member of the Supervisory Board	06.11.2020	11.11.2020
Anrī Leimanis	Chairman of the Supervisory Board	11.11.2020	14.01.2021
Anrī Leimanis	Deputy Chairman of the Supervisory Board	14.01.2021	-
Karolis Sankovski	Deputy Chairman of the Supervisory Board	30.12.2019	06.11.2020

Members of the Supervisory Board (cont'd)

Karolis Sankovski	Member of the Supervisory Board	06.11.2020	11.11.2020
Karolis Sankovski	Deputy Chairman of the Supervisory Board	01.11.2020	14.01.2021
Karolis Sankovski	Deputy Chairman of the Supervisory Board	14.01.2021	-
Ahti Kuningas	Deputy Chairman of the Supervisory Board	30.12.2019	06.11.2020
Ahti Kuningas	Member of the Supervisory Board	06.11.2020	11.11.2020
Ahti Kuningas	Deputy Chairman of the Supervisory Board	11.11.2020	14.01.2021
Ahti Kuningas	Member of the Supervisory Board	14.01.2021	-
Ligita Austrupe	Member of the Supervisory Board	31.05.2019	06.11.2020
Ligita Austrupe	Member of the Supervisory Board	06.11.2020	-
Romas Švedas	Member of the Supervisory Board	31.07.2018	06.11.2020
Anti Moppel	Member of the Supervisory Board	14.10.2019	06.11.2020

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

In 2020 RB Rail AS implemented activities to further strengthen the governance of the Company. Firstly, RB Rail AS Corporate Strategy 2021-2026 was approved, setting out clear objectives as well as defining the Company mission, vision, and values. Secondly, the Company introduced the Planning, Scheduling and Risk reporting software to ensure efficient management of all project activities and resources. Thirdly, RB Rail AS Management Board was approved for a three-year period, which provided enhanced leadership and stability.

Regarding organisation design, the Joint Venture modified the organisational structure by moving Project Management from CTO Division under Chief Program Management Officer, who started his term on 3 February 2020.. The changes were aimed to improve the project management, planning and control.

Effective and timely engagement with key stakeholders is critical for megaproject planning, appraisal and delivery. Therefore, to ensure this functionality, Strategic Stakeholder Management and Government Affairs unit was established.

Also, the Latvian branch was established to synchronise and align the organizational structure in all countries.

RB Rail AS team in 2020 grew from 89 people to 132, where 54 persons were hired, and 11 left the Company. By the end of 2020, headcount split between the branches was as follows: 83 in Riga, 28 – Tallinn, 21 – Vilnius. Additional staff members were hired across the whole organisation and locations to deal with the increasing workload in the Technical Division, Program Management, Finance, Procurement and Administration.

Global Project financing

Rail Baltica project progress was further solidified by successful application for the next round of financing from the EU Connecting Europe Facility (CEF). Additional 214,3 million EUR were secured from CEF and national governments amounting to 1,2 billion EUR funding available for the Global Project already.

Rail Baltica Project Progress in 2020



2020 marked the start of Rail Baltica construction works and progress on the design of the main line in all three Baltic States. While the first road viaduct on the Tallinn ring road in Saustinõmme is nearing completion and construction is underway also in Lithuania to rebuild the Kaunas ring railway, in Latvia, the construction works in Riga Central Station, one of two Rail Baltica international stations in Latvia, started on 17 November 2020.

In Estonia and Latvia design works are taking place for the whole main line, and in Lithuania in two sections - from Kaunas to the Lithuanian-Latvian state border. In total, detailed technical design works are ongoing on 643 km of the main line.

Furthermore, in 2020 an important decision was taken to design the regional stations on the route of Rail Baltica. A total of 12 Rail Baltica local stations are currently planned in Estonia, 16 in Latvia and 11 in Lithuania. As a result, Rail Baltica will not only provide high speed international train services but also fast local and regional train connections. This decision opens an exciting new potential to boost regional connectivity and strengthen regional development in the Baltic States. For sure, it adds new benefits to local communities living in the catchment areas of the new line, such as fast train connection with the capital and regional center, revitalization of real estate market due to improved connection with the center and development of small and medium enterprises. Furthermore, regional development will also be spurred by improved access to multimodal freight logistics networks, as well as modern digital infrastructure, including fiber and 5G connectivity.

Equally significant progress was made in developing the infrastructure to facilitate future freight transportation on Rail Baltica line. In Lithuania, the construction was completed of a 1435 mm gauge railway that connects the existing freight terminal in Kaunas. A design tender was announced in Latvia for the freight terminal design in Salaspils. The design of Muuga and Pärnu freight terminals started in Estonia. The development of the freight

facilities at an early stage of the project will ensure that Rail Baltica has a strong freight traffic and economic viability in the future.

Significant progress was reached with the development of the railway subsystems, which will be installed in a unified manner in all states to guarantee interoperability and safety on the cross-border line. In particular, the Rail Baltica Energy Subsystem (ENE) strategy was developed and procurement was launched to select ENE engineering service providers. Furthermore, the strategy for the procurement and deployment of Rail Baltica Control Command and Signalling Subsystems was developed. The work on procurement of the two systems will continue in 2021. As member of UIC, Rail Baltica has also joined the industry-leading 5GRAIL project, not least to be on the frontlines of the game-changing FRMCS technology deployment.

In order to promote the development of the future Rail Baltica economic corridor, significant work is being invested in promoting the international visibility of Rail Baltica, engagement with suppliers, future users and other key commercial stakeholders, elaboration of a comprehensive global project marketing strategy, as well as development of a new state-of-the-art multimodal transport demand model that will underpin the next-generation cost-benefit analysis and the updated long-term global project business plan. Capitalizing on its unique greenfield status, Rail Baltica is also actively pursuing innovation and digitalization opportunities, adopting solutions that promote sustainability and impact minimization, as well as promoting "Dig Once" corridor synergies, not least vis-à-vis the deployment of digital infrastructure along the Rail Baltica international corridor.

Procurements

In 2020 RB Rail AS concluded 20 regular procurement contracts, including 11 public procurement contracts for procurement procedures announced in 2020 and 9 contracts resulting from procurement procedures published in 2019 which were completed in 2020. 22 regular procurement procedures were published in 2020, out of which 11 are continuing in 2021. The total value of 39.8 million EUR was procured in 2020. Overall, 507 orders were placed under framework agreements, e-procurement system catalogue purchases, items not governed by regular procurement procedures and/or exceptions, amounting to a total value of 1.44 million EUR.

Procurement procedures at RB Rail AS were executed effectively – only 3 procurement procedures received appeals, for all of which appeal decisions were in favour of RB Rail AS. Additionally, 3 procurement processes were terminated, 1 procurement procedure was relaunched. According to the RB Rail AS Supplier Survey 2020, 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 2020 the process for updated Common Procurement Standards and Guidelines for the Rail Baltica Project were instigated, following the feedback from the State Audit Institutions of Estonia, Latvia and Lithuania, including the updated minimum qualification requirements, which shall also be applied by the implementing bodies.

Public Communication

Public awareness about the project and support remained high on the agenda in 2020. To that end, RB Rail AS conducted an integrated public information campaign that reached 1.5 million people in the Baltics. The company hosted more than 10 public consultation events about design solutions of the main line in Latvia and Lithuania and environmental impact programme in Estonia. More than 500 media publications were initiated by the

company to raise public awareness. Special newspaper additions were published in the regional press and youth magazines. During the year, public support to the project remained high in Lithuania, increased in Estonia, but slightly decreased in Latvia. Finally, Rail Baltica Global Forum in 2020 was implemented in the online format to engage with the business community and mobilize their participation in the projects tenders. According to the RB Rail AS supplier survey, 95% of respondents believe that RB Rail AS procurements are fair and transparent.

Goals for 2021

On the project planning and development side 2021 goal is to significantly progress with master design of the main line. We will continue with the development of the Energy Subsystem and Control Command and Signalling and expect to launch a procurement for design and build of both systems.

Additionally, Rail Baltica decision-makers will have to take a decision on the construction logistics and procurement strategy as well as to prepare applications for financing the next phases of the project. Two EU CEF calls are scheduled in 2021 and RB Rail AS will be taking an active role in securing the next tranche of financing.

Furthermore, the project will launch the first consolidated procurements for the infrastructure materials and railway components such as cables, ballast, precast elements, sleepers, turnouts and rails to ensure optimum interoperability, consistent quality and deployment standards and significant economies of scale, as well as enable efficient life-cycle management of infrastructure assets.

Financial performance and the Financial position for the Reporting Period

The reporting period from 1 January 2020 through 31 December 2020 was the Company's sixth year of operations.

In 2020 the Company recognised income from EU grants of 7 068 624 EUR (in 2019 – 6 557 414 EUR) and other financing income from Rail Baltica stakeholders from Latvia, Estonia and Lithuania (national Beneficiaries) of 3 678 350 EUR (in 2019 – 1 624 960 EUR). The result for the year was a loss of 60 063 EUR (in 2019 – a loss of 1 409 201 EUR) increasing the total accrued loss to 4 896 948 EUR.

During the year there were no changes in the share capital of the Company, but its financial stability was improved significantly.

Agreement on Interim Financing of RB Rail AS in 2020 and 2021 was concluded with the national Beneficiaries in December 2020 and, related to it, agreements were signed also between RB Rail AS and AB LTG Infra for 2020 and between RB Rail AS and Rail Baltic Estonia OU for 2020-2021. In order to ensure sufficient cash flow for RB Rail AS operation, the national Beneficiaries provided additional bridge financing which would be repaid from Innovation and Networks Executive Agency (INEA) interim and final financing payments. During the year, in accordance with the Cabinet of Ministers rules No. 218 of 14.04.2020, the Ministry of Transport of the Republic of Latvia ensured funding for the non-deductible input VAT incurred by RB Rail AS in Latvia in the period to 30.09.2020. The VAT amount for the last quarter of 2020 will be compensated by the Ministry in 2021. Input VAT incurred by RB Rail AS in Estonia and Lithuania was financed via financing agreements signed with AB LTG Infra and Rail Baltic Estonia OU. In 2020 RB Rail AS obtained confirmation from the tax administrations of Latvia, Estonia and Lithuania that financing flows under above mentioned financing agreements from the Ministry of Transport of Latvia, AB LTG Infra and Rail Baltic Estonia OU to the Company are transactions outside the scope of VAT law and it is not required to prepare transfer pricing documentation.

Risk management

Risk management is an integral part of RB Rail AS corporate governance. Risk management framework includes strategies, methods and processes to identify, analyze, assess, control, monitor and report the short and long term risks RB Rail AS might face. Risk management is performed at all levels of RB Rail AS, and is organized according to the three "lines of defense" model: risk takers on operational level (1st line), Risk Management Function, Compliance Function (2nd line), and Internal Audit Function (3rd line).

Current risk profile of RB Rail AS includes strategic risk, financial risk, operational risk, compliance risk and reputational risk (pls see Note 21).

Development of effective risk management framework continued in 2020 with main focus on elaboration and implementation of Rail Baltica Global Project risks management system, as Rail Baltica Global Project risks are the main part of RB Rail AS risk profile. Further development of Risk management framework will continue with improvements in corporate risk management system.

Events after the balance sheet date

Subsequent events are disclosed in Note 22.



Agnis Driksna

Chairman of the Management Board

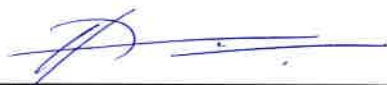
15 March 2021

The annual report was approved by the shareholders' meeting on _____ 2021

Statement of profit or loss

	Notes	01.01.2020- 31.12.2020 EUR	01.01.2019- 31.12.2019 EUR
Other operating income	4	10 779 150	8 197 899
Personnel costs	5	(7 079 639)	(5 321 242)
a) remuneration for work		(5 778 831)	(4 360 638)
b) mandatory state social insurance contributions		(1 300 491)	(960 383)
c) other social insurance costs		(317)	(220)
Depreciation	8	(184 254)	(98 515)
Other costs of economic activity	6	(3 573 818)	(4 185 403)
Loss before corporate income tax		(58 561)	(1 407 261)
Corporate income tax for the financial year	7	(1 502)	(1 940)
Total loss for the year		(60 063)	(1 409 201)

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



Agnis Driksna
Chairman of the Management Board




Anita Pūka
Chief Accountant

15 March 2021

Balance sheet

ASSETS			
	Notes	31.12.2020 EUR	31.12.2019 EUR
NON-CURRENT ASSETS			
Intangible assets			
Intangible assets	8	453 804	142 465
Advance payments for intangible assets	8	17 010	-
TOTAL		470 814	142 465
Other fixed assets	8	172 945	158 527
TOTAL NON-CURRENT ASSETS		643 759	300 991
CURRENT ASSETS			
Receivables			
Receivables from associates	9	129 871	134 110
Other receivables	10	75 129	40 394
Prepaid expense	11	160 546	121 675
Accrued income	12	7 928 491	6 569 382
TOTAL		8 294 037	6 865 561
Cash	13	24 676 931	5 828 290
TOTAL CURRENT ASSETS		32 970 968	12 693 850
TOTAL ASSETS		33 614 727	12 994 841

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


 Agnis Driksna
 Chairman of the Management Board


 Anita Pūka
 Chief Accountant

15 March 2021

Balance sheet

EQUITY AND LIABILITIES			
	Notes	31.12.2020 EUR	31.12.2019 EUR
EQUITY			
Share capital	14	1 950 015	1 950 015
Share issue premium	14	9 749 985	9 749 985
Accumulated losses		(4 836 885)	(3 427 684)
Losses for the financial year		(60 063)	(1 409 201)
TOTAL EQUITY		6 803 052	6 863 115
LIABILITIES			
Non-current liabilities			
Loans from associates	15	6 965 538	5 068 154
Deferred income	16	366 822	137 365
TOTAL		7 332 360	5 205 519
Current liabilities			
Loans from associates	15	7 915 540	-
Accounts payable to suppliers and contractors		309 584	291 538
Payables to related parties	20	1 344 659	149 768
Taxes payable	17	34 612	35 751
Other payables		-	235
Deferred income	16	9 435 898	178 742
Accrued liabilities	18	439 022	270 173
TOTAL		19 479 315	926 207
TOTAL LIABILITIES		26 811 675	6 232 726
TOTAL EQUITY AND LIABILITIES		33 614 727	12 994 841

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



Agnis Driksna
Chairman of the Management Board




Anita Pūka
Chief Accountant


15 March 2021

Statement of cash flows

	Notes	01.01.2020- 12/31/2020 EUR	01.01.2019- 12/31/2019 EUR
Cash flows to/ from operating activities			
Loss before tax		(58,561)	(1,407,261)
Adjustments for:			
Reduction of non-current assets value	8	184,254	98,515
Income from INEA and other financing	4	(10,746,973)	(8,182,374)
Operating profit or (loss) before working capital changes		(10,621,280)	(9,491,119)
Decrease / (increase) in receivables		(73,606)	(43,455)
(Decrease)/ increase in payables		16,171	(43,627)
(Decrease)/increase in accrued expense		168,849	(208,105)
Cash generated from operations		(10,509,866)	(9,786,306)
Corporate income tax paid		(1,001)	(1,031)
Net cash flows to operating activities		(10,510,867)	(9,787,337)
Cash flows to investing activities			
Purchase of intangible assets		(424,374)	(93,940)
Purchase of tangible assets		(102,648)	(97,085)
Net cash flows to investing activities		(527,022)	(191,025)
Cash flows from financing activities			
Paid in share capital	14	-	3
Paid in Share premium	14	-	1,949,997
Loans from associates	15	9,812,925	5,068,154
Financing from national beneficiaries	4	6,897,290	897,695
Grants / Pre-financing from INEA attributable to the Company	4	13,305,679	2,009,127
Net cash flows to/ from financing activities		30,015,894	9,924,976
Change in cash		18,978,005	(53,386)
Cash at the beginning of the period	13	5,698,926	5,752,312
Cash at the end of the year attributable to the Company	13	24,676,931	5,698,926
Cash at the end of the year attributable to the other Beneficiaries	13	0	129,364
Undistributed CEF financing		-	-
Total cash at the end of the year		24,676,931	5,828,290

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


Agnis Driksna
Chairman of the Management
Board


Anita Pūka

15 March 2021

Statement of changes in equity

	Share capital	Share premium	Accumulated losses	Loss for the period	Total
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
(Loss) for the reporting year	-	-	-	(60 063)	(60 063)
Transfer of prior year result	-	-	(1 409 201)	1 409 201	-
Issue of share capital	-	-	-	-	-
Balance as at 31 December 2020	1 950 015	9 749 985	(4 836 885)	(60 063)	6 803 052

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



Agnis Driksna
Chairman of the Management Board



Anita Pūka
Chief Accountant

15 March 2021

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 J.Basanavičiaus g. 24, Vilnius, Lithuania,

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

Rail AS Filiale, Reg. No. 40203254781 K.Valdemāra iela 8-7, Riga, Latvia

The financial statements of the Company for the period from 1 January 2020 through 31 December 2020 were approved by a resolution of the Company's shareholders on ____ 2021.

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 and related national co-financing is recognized when direct eligible costs are incurred, applying CEF co-financing rate and national co-financing rate in the respective CEF Grant Agreement:

	CEF co-financing rate	National co-financing rate
CEF1 (INEA/CEF/TRAN/M2014/1045990)	- 85%	15%
CEF2 (INEA/CEF/TRAN/M2015/1129482)	- 85%	15%
CEF3 (INEA/CEF/TRAN/M2016/1360716)	- 85%	15%
CEF6S (INEA/CEF/TRAN/M2019/2098304)	- 85%	15%
CEF6W (INEA/CEF/TRAN/M2019/2098073)	- 85%	15%

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	- 5 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.

During 2020 the Company concluded Agreement on Interim Financing of RB Rail AS in 2020 and 2021 with the ministries of the three Baltic States responsible for implementation of Rail Baltica project. Two more agreements were concluded during 2020 with other implementing bodies of Rail Baltica project – Cooperation agreement

between RB Rail AS and Rail Baltic Estonia OU for 2020-2021 and Service agreement between RB Rail and LTG Infra AB for 2020. The substance of all agreements is financing RB Rail AS by sharing and compensating actual costs of Rail Baltica project coordination and implementation, therefore their accounting treatment is identical to that of government grants.

Because of the different legal forms of the agreements, the Company sought a joint view of the three tax administrations of Baltic States on the application of VAT and corporate income tax to these cost-sharing transactions, and received answers that the economic activity of RB Rail AS is not provision of services in the context of VAT and income tax laws.

Deferred income

Deferred income is recognised when funds from European Union and the three Baltic governments 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.

Useful life of property plant and equipment

During the physical verification of assets prior to year end 2020 it was observed that the wear and tear of some items of office furniture will not allow to use it for initially intended 7 years, therefore the estimated useful life of furniture was reduced to 5 years. This change of estimate affect the depreciation charge for the remaining life of furniture items as it is applied prospectively.

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 2020.

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.

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 and national co-financing receivable from national Beneficiaries – stakeholders of Rail Baltica project according the concluded financing agreements.

Going concern

At each year-end management makes assessment whether the Company has adequate resources to continue its operations for at least one year from the end of the reporting year. See Note 23.

4. Other operating income

	2020	2019
	EUR	EUR
Income from CEF grants co-financing from INEA to compensate the following costs:		
Project implementation support measures	5 474 169	5 043 585
Technical and operational studies and IT systems	1 111 660	1 006 196
PR, marketing and business development	482 795	507 633
Total income from CEF grants	7 068 624	6 557 414
Financing income from Latvia	631 845	-
Non-deductible input VAT compensation from the Government of Latvia	663 631	1 011 401
Financing income from Estonia	1 671 493	613 559
Financing income from Lithuania	711 381	-
Contractual penalty income	32 176	15 525
TOTAL:	10 779 150	8 197 899

On 24 November 2015 the Company 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 (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 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 18 February 2021, 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 30 June 2023. The grant for the action is a maximum amount of 130,2 million EUR, and total estimated eligible costs are 153,1 million EUR.

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 as 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.

On 16 November 2020 the Company concluded CEF6s Grant Agreement (No. INEA/CEF/TRAN/M2019/2098304) under the Connecting Europe Facility, Transport sector, with the European Innovation and Networks Executive Agency for the action entitled "Rail Baltica - 1435 mm standard gauge railway line development in Estonia, Latvia and Lithuania (Part IV)". The action runs from 1 March 2020 until 31 December 2023. The grant for the action is a maximum amount of 86,1 million EUR, and total estimated eligible costs are 73,2 million EUR.

On 13 November 2020 the Company has concluded CEF6w Grant Agreement (No. INEA/CEF/TRAN/M2019/2098304) under the Connecting Europe Facility, Transport sector, with the European Innovation and Networks Executive Agency for the action entitled "Rail Baltica - 1435 mm standard gauge railway line development in Estonia, Latvia and Lithuania (Part V)". The action runs from 1 March 2020 until 31 December 2023. The grant for the action is a maximum amount of 128,1 million EUR, and total estimated eligible costs are 108,9 million EUR.

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. Compensation for these expenses is part of financing income from Latvia, Estonia and Lithuania reflected above.

In 2020 and 2019 income from CEF grants was recognized in the amount of 85% from eligible expenses incurred during the reporting year.

Since 2019 the governments of Latvia, Estonia and Lithuania undertake to finance the costs of RB Rail AS not covered from CEF grants from the national funds available for Rail Baltica project. In 2019 an Agreement on interim financing of RB Rail AS in 2019 was concluded among the national beneficiaries and implementing bodies of Rail Baltica project and RB Rail AS. Ministry of Economic Affairs and Communications of the Republic of Estonia agreed to finance RB Rail AS costs in 2019 incurred for acting in its capacity of central purchasing body and engaging directly in project activities under the responsibility of Estonian Beneficiary in the form of grant. The amount of 613 559 EUR related to this agreement was recognized in income in 2019 and received by a bank transfer in 2020.

On 3 December 2019 the Government of Latvia adopted decision to compensate the non-deductible input VAT incurred by the Company in Latvia. 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 amount of input VAT for 2019 and up until 30 September 2020, in total 647 465 EUR, was transferred to the Company during 2020 based on the Cabinet of Ministers regulations No. 218 from 14 April 2020. The balance of accrued VAT compensation income for the period 1 October 2020 to 31 December 2020 of 129 871 EUR is included in Receivables from associates (see Note 9).

During 2020 the Company concluded Agreement on Interim Financing of RB Rail AS in 2020 and 2021 with the ministries of the three Baltic States responsible for implementation of Rail Baltica project. Two more agreements were concluded during 2020 with other implementing bodies of Rail Baltica project – Cooperation agreement between RB Rail AS and Rail Baltic Estonia OU and Service agreement between RB Rail and LTG Infra AB. The substance of all agreements is financing RB Rail AS by sharing and compensating actual costs of Rail Baltica project coordination and implementation.

The financing income from the national beneficiaries of the Rail Baltica project are recognized following the same accounting principles as income from CEF and other government grants.

5. Personnel costs

	2020 EUR	2019 EUR
a) Remuneration for work		
Project management team remuneration	5 081 855	3 661 952
Management board remuneration	511 026	512 687
Supervisory board remuneration	185 950	186 000
TOTAL:	5 778 831	4 360 639
b) Social insurance costs		
Project management team	1 190 047	815 783
Management Board members	74 757	110 293
Supervisory board members	35 687	34 307
TOTAL:	1 300 491	960 383
c) Other social insurance costs		
Entrepreneurship state risk duty	317	220
TOTAL:	317	220

At the end of financial year 2020 the Company employed 132 employees, and had 4 Management Board member and 6 Supervisory Board members (2019: 89, 3 and 6 respectively). The average number of employees during the reporting year was 113 (2019: 82).

6. Other costs of economic activity

	2020 EUR	2019 EUR
Professional service fees	1 139 568	1 616 147
Travel costs	91 289	417 800
Public relations, communications and marketing	356 690	372 517
Office rent, maintenance and administrative expenses	466 551	416 206
Other project implementation support measures	534 093	290 665
Recruitment and training	290 716	162 831
Non-recoverable input VAT	694 911	909 237
TOTAL:	3 573 818	4 185 403

7. Corporate income tax

	2020 EUR	2019 EUR
Current corporate income tax charge for the reporting year in Latvia	808	1 239
Current corporate income tax charge for the reporting year in Estonia	694	701
Total corporate income tax expense:	1 502	1 940

8. Non-current assets

	Intangible assets	Advance Payments for intangible assets	Other fixed assets	TOTAL
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
Disposals	71 589	(71 589)		0
Depreciation charge 2019	(29 703)		(68 812)	(98 515)
Carrying amount as at 31 December 2019	142 464	-	158 527	300 991
Additions 2020	314 364	110 010	102 648	527 022
Reclassification	93 000	(93 000)		-
Depreciation charge 2020	(96 025)		(88 229)	(184 254)
Carrying amount as at 31 December 2020	453 804	17 010	172 945	643 759

9. Receivables from associates

	31.12.2020 EUR	31.12.2019 EUR
VAT compensation receivable from Ministry of Transport of the Republic of Latvia*	129 871	113 705
Overpaid CEF1 grant pre-financing receivable from Ministry of Economic Affairs and Communications of the Republic of Estonia**	-	20 405
Total :	129 871	134 110

* 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 as at 31.12.2019 represented the compensation receivable for taxable periods November and December 2019. On 14 April 2020 Cabinet of Ministers regulations No. 218 were adopted, based on which Ministry of Transport of the Republic of Latvia transferred the remaining part of the compensation for 2019 and the the input VAT for the period from 1 January 2020 to 30 September 2020 - 647 465 EUR in total. The balance receivable for 2020 represents the compensation receivable for the last quarter of 2020.

** 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 liability towards Lithuanian Beneficiary and receivable from Estonian Beneficiary were settled by RB Rail AS in April 2020.

10. Other receivables

	31.12.2020 EUR	31.12.2019 EUR
Tax receivables (see Note 17)	39 956	24 723
Security deposit for office rent	33 931	14 565
Other receivables	1 242	1 106
TOTAL:	75 129	40 394

11. Prepaid expense

	31.12.2020 EUR	31.12.2019 EUR
Insurance	15 357	10 502
Software and other subscription costs	140 857	107 474
Participation in exhibitions and conferences	-	2 875
Travelling expense	-	824
Advances to suppliers	4 332	-
TOTAL:	160 546	121 675

12. Accrued Income

	31.12.2020 EUR	31.12.2019 EUR
Accrued CEF1 grant income	3 746 723	3 599 017
Accrued CEF1 grant income	76 279	-
Accrued CEF3 grant income	4 105 489	2 356 806
Accrued financing income from Ministry of Economic Affairs and Communication of the Republic of Estonia	-	613 559
TOTAL:	7 928 491	6 569 382

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

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. Income provided by Estonian Beneficiary in the form of grant for covering RB Rail costs related to activities specified in the agreement was 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 and it was received on RB Rail AS bank account in March 2020.

13. Cash

	31.12.2020 EUR	31.12.2019 EUR
CEF financing account	-	129 364
Company's operational account	24 676 931	5 698 926
TOTAL:	24 676 931	5 828 290

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.

The bank account designated for CEF financing in 2019 contained restricted cash attributable to Lithuanian Beneficiary of the Project, which was transferred to the Beneficiary in April 2020.

14. Share capital

As at 31 December 2020 the share capital of the Company is 1 950 015 EUR (31.12.2019: 1 950 015 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 2020, the share premium amounted to 9 749 985 EUR (31.12.2019: 9 749 985 EUR).

As at 31 December 2020, 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
TOTAL:	100	950 015	9 749 985

15. Loans from associates

The carrying amounts of the loans received at the end of reporting period were as follows:

	31.12.2020 EUR	31.12.2019 EUR
Non-current portion of the bridge loans:		
Bridge loan from the Ministry of Transport and Communications of the Republic of Lithuania	1 652 089	2 534 077
Bridge loan from the Ministry of Transport of the Republic of Latvia	3 832 696	2 534 077
Bridge loan from the Ministry of Economic Affairs and Communications of the Republic of Estonia	1 480 753	-
Total non-current portion of bridge loans from related parties	6 965 538	5 068 154
Current portion of the bridge loans:		
Bridge loan from the Ministry of Transport and Communications of the Republic of Lithuania	2 599 437	-
Bridge loan from the Ministry of Transport of the Republic of Latvia	3 425 840	-
Bridge loan from the Ministry of Economic Affairs and Communications of the Republic of Estonia	1 890 263	-
Total current portion of bridge loans from related parties	7 915 540	-
TOTAL:	14 881 078	5 068 154

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, and later in the

Agreement on Interim Financing of RB Rail AS in 2020 and 2021, 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.

The Ministry of Transport and Communications of the Republic of Lithuania transferred to RB Rail AS bank account 2 534 077 EUR in May 2019 and 1 717 449 EUR in May 2020. The loans from the Ministry of Transport of the Republic of Latvia were withheld by RB Rail AS by mutual agreement from the CEF pre-financing amounts received on coordinator's account and attributable to the Ministry during the pre-financing distribution in May 2020 at the nominal value of 2 534 077 EUR and 4 724 460 EUR in April 2020. Similarly, bridge loan from the Ministry of Economic Affairs and Communications of the Republic of Estonia of 3 371 016 EUR was withheld from the CEF pre-financing amounts received and attributable to the Ministry in April 2020.

16. Deferred income

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.

	31.12.2020 EUR	31.12.2019 EUR
Non-current portion of deferred income related to non-current assets	366 822	137 365
Current portion of deferred income related to non-current assets	252 750	118 477
Current portion of deferred income related to balance of CEF2 financing	-	60 265
Current portion of deferred income related to balance of CEF6 financing	7 978 636	-
Current portion of deferred income related to balance of financing from Latvia	736 024	-
Current portion of deferred income related to balance of financing from Estonia	468 488	-
TOTAL:	9 802 720	316 107

17. Taxes (payable) /overpaid

	31.12.2020 EUR	31.12.2019 EUR
Latvia		
Value added tax	(31 114)	(33 637)
Personal income tax	214	4 837
Mandatory state social insurance contributions	29 150	(46)
Corporate income tax	(51)	(244)
Estonia		
Value added tax	7 510	11 201
Corporate income tax	(1 145)	(451)
Statutory social insurance contributions	(2 302)	(1 157)
Lithuania		
Value added tax	2 631	8 685
Statutory social insurance contributions	161	(113)
Personal income tax	290	(103)
TOTAL:	5 344	(11 028)
TOTAL LIABILITY:	(34 612)	(35 751)
TOTAL OVERPAYMENT (See Note 10):	39 956	24 723

18. Accrued liabilities

	31.12.2020 EUR	31.12.2019 EUR
Accrued liabilities for unused vacations	383 042	196 332
Accrued liabilities for professional services	2 700	24 795
Accrued liabilities for audit services	42 000	40 000
Other accrued liabilities	11 280	9 046
TOTAL:	439 022	270 173

19. Contingent liabilities

Operating lease commitments at the end of the reporting period:

	31.12.2020 EUR	31.12.2019 EUR
Lease of premises	455 194	302 974
Lease of cars	67 138	91 834
Other leases	8 889	27 523
TOTAL:	531 221	422 332

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 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 2020 the Company as a coordinator received pre-financing amounts from INEA in line with CEF1, CEF 3 and CEF6 Grant Agreements. All pre-financing was distributed to all four parties, including the balance of undistributed grant amount from 2019.

During 2020 the Company received additional 3 bridge loans from the Beneficiaries (see Note 15).

According to the Cabinet of Ministers regulation No. 218 of 14 April 2020, the Ministry of Transport of the Republic of Latvia transferred to the bank account of RB Rail AS during 2020 compensation of non-deductible input VAT incurred by the Company of 647 465 EUR, while compensation for October to December 2020 remained receivable (see Note 9).

Based on the Agreement on Interim Financing of RB Rail AS in 2020 and 2021 the Ministry of Transport of the Republic of Latvia provided financing of 1 391 994 EUR, of which 736 024 remained unused as at 31 December 2020 (see Note 16).

In March 2020 the Ministry of Economic Affairs and Communications of the Republic of Estonia transferred 613 559 EUR financing for costs incurred in 2019 based on the bilateral agreement. This income was accrued at 31 December 2019 (see Note 12).

Rail Baltic Estonia OU, in its capacity of the national implementing body of Rail Baltica project in Estonia, provided financing of 2 165 378 EUR to RB Rail AS based on the Cooperation Agreement signed in 2020, of which 468 488 EUR remained unused at 31 December 2020 (see Note 16).

Other related party is the national implementing body in Lithuania – LTG Infra AB, subsidiary of Lietuvos Geležinkeliai AB, with whom a Service Agreement was signed in 2020 for financing of the relevant share of RB Rail AS costs. LTG Infra AB transferred 2 078 893 EUR financing to RB Rail AS, of which 1 343 387 EUR were not used by 31 December 2020. Based on Service Agreement clauses, credit note is to be issued for unused balance and repaid, therefore it is presented as Payable to related party as of 31 December 2020.

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

21. Risk profile

The risk profile refers to the risks that RB Rail AS is exposed to. The main financial risks arising from the Company's financial instruments are liquidity risk and eligibility risk. As other material risks operational risk, reputational risk, compliance risk and strategic risk are considered.

Liquidity risk

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

In 2020, the Agreement on Interim Financing of RB Rail AS in 2020 and 2021 with the national Beneficiaries and related agreements with AB LTG Infra for 2020 and Rail Baltic Estonia OU for 2020-2021 were signed. The agreements ensure national co-financing for activities financed by CEF grants, financing of expenses regarded as non-eligible under grant agreements (including VAT) and bridge financing to cover periods of RB Rail AS operations when costs eligible for grant financing had been incurred, but grant payments are not yet received.

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

	31.12.2020 EUR	31.12.2019 EUR
Payable in less than 3 months		
Accounts payable to suppliers and contractors	309 584	327 289
Taxes payable	34 612	35 751
Payable to related parties	1 344 659	149 768
TOTAL:	1 688 855	512 808

In 2020, INEA and RB Rail AS on behalf of the national Beneficiaries signed two additional cross-border Grant Agreements on the CEF funding for Rail Baltica in 2020-2023. The total budget of these two Agreements is 214,3 million EUR, of which CEF contribution will be of a maximum amount of 182,2 million, constituting 85% of the total eligible costs. Remaining 15% will be financed by the governments of the Baltic States. The budget for activities to be implemented by RB Rail AS amounts to 50,7 million EUR.

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 agreements. 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

Operational risks are inherent to RB Rail AS business operations and should be mitigated, transferred, or avoided, if possible, if this is economically feasible. In 2020 an operational risk register and analytical tool was implemented to ensure holistic overview on the Company and Rail Baltica Global Project levels. The operational risks are assessed

both qualitatively and quantitatively. Main mitigation activities are performed on process levels by ensured controls.

Global spread of Covid-19 posed an increase in operational risk level. On corporate side this risk was successfully managed and mitigated, continuous control ensured, thus no significant quantitative or qualitative impact exposed.

Strategic risk

Strategic risk might arise from wrong business decisions or inadequate implementation. In order to set a long-term goal, define activities to achieve strategic targets, the Corporate Strategy was elaborated and approved in 2020. Main strategic risks were identified within SWAT analysis, being a part of Corporate Strategy, and possible mitigation measures incorporated into strategic priorities, cascaded as strategic activities to operational unit level. A process to monitor the implementation of strategic activities and its quality, thus, to monitor and mitigate the strategic risks, was established. Strategic risks are managed by interlocking strategic decision making and risk management processes, meaning that possible risks are identified and evaluated prior decision making.

Compliance risk

Compliance function ensures advisory tasks for RB Rail AS both on corporate and Rail Baltica Global Project levels on compliance with the applicable external regulations. Compliance risk management is ensured by identification of possible threats of changes or new regulatory requirements in the legal area on the business operations of the Company and provide recommendations and requirements for risk mitigation and elimination; monitors the adherence to legal requirements on a regular basis, ensuring that internal processes and documentation are elaborated in compliance.

Reputational risk

Reputational risk is a threat to the image of RB Rail AS, which may be caused by adverse publicity regarding Rail Baltica Global Project or the Company's activities and cause loss of confidence. Main sources of the reputational risks could be actions of the Company, Company's employees or third parties – partners, suppliers etc. Reputational risks may arise in conjunction with or as a consequence of the realization of other risks, e.g. compliance, operational, strategic or financial. Thus, reputational risk exposure is controlled indirectly through the controls of the respective risk types where it may arise – elaboration of mitigation measures of other risk types includes reputational risk mitigation activities, if relevant.

22. Subsequent events

On 18 February 2021 amendments to CEF2 Grant agreement No INEA/CEF/TRAN/M2015/1129482 were signed extending the term of the Action until 30.06.2023.

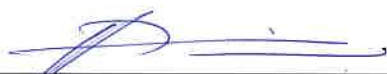
On 6 January 2021 a lease agreement for the main office of the Company in Riga was extended until 31 October 2021. The extension was already included into the lease commitments at 31 December 2020 (see Note 19).

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

During 2020 the Company concluded Agreement on Interim Financing of RB Rail AS in 2020 and 2021 with the ministries of the three Baltic States responsible for implementation of Rail Baltica project and received additional bridge loans from them (see Note 17). Two more agreements were concluded during 2020 with other implementing bodies of Rail Baltica project – Cooperation agreement between RB Rail AS and Rail Baltic Estonia OU for 2020-2021 and Service agreement between RB Rail and LTG Infra AB for 2020. The substance of all agreements is financing RB Rail AS by sharing and compensating actual costs of Rail Baltica project coordination and implementation. At the end of the reporting year the Company also received pre-financing from INEA in line with the two CEF6 grant agreements signed in November 2020.

As at the end of the financial year 2020 the Company has sufficient financial and other resources to continue operations at least for one year, therefore these financial statements are prepared on a going concern basis.



Agnis Driksna
Chairman of the Management Board



Anita Pūka
Chief Accountant

15 March 2021

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 11 to 32 of the accompanying annual report, which comprise the Balance sheet as at 31 December 2020, 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 2020, 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 International Code of Ethics for Professional Accountants (including International Independence Standards) 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 International Code of Ethics for Professional Accountants (including International Independence Standards) 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.

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 10 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.

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.

Deloitte Audits Latvia SIA
License No. 43



Inguna Staša
Board member
Certified auditor
Certificate No. 145

Riga, Latvia
15 March 2021